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FINANCIAL TIMES

World Business Newspaper http://www.FT.com

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Sleeping on the job
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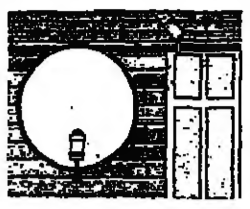

Pay TV in Europe
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WORLD NEWS

Sakakibara reprimanded for accepting entertainment

Eisuke Sakakibara, Japan's top financial diplomat, was yesterday reprimanded for having accepted lavish entertainment from the private sector. Mr Sakakibara handed back part of his salary voluntarily as an apology. Page 18; Asian news, Page 6

France blocks trade move
Plans for a "New Transatlantic Marketplace", ending trade barriers between the EU and US, suffered when France blocked moves to put them on the agenda of next month's EU-US summit. Page 8

Strike disrupts Denmark
Danish industrial output and transport services were disrupted on the first day of a national strike by more than 560,000 workers. In Brussels, a strike by European Commission staff is set to begin this Thursday. Page 3

Philippines defence contract
The Philippines took a step towards the $8.5bn modernisation of its armed forces by selecting 14 international defence groups to bid for a contract supplying aircraft and patrol vessels. Page 8

EU environmental audit
Progress on environmental policies in the EU is to be measured by a common audit procedure agreed by the UK and its three successors as holders of the Union's presidency, says John Prescott, deputy UK prime minister. Page 2

UN set to keep Iraq sanctions
Ignoring Iraq's threats and appeals, the UN Security Council was last night poised to prolong the crippling embargo in force for eight years. Page 4

Storms on the sun
Vast solar tornadoes, nearly as wide as the earth and gusting at up to 500,000kph, have been discovered by the European Space Agency's SOHO spacecraft.

Toxic tide rolls on
A toxic waste spill from a burst mine reservoir in southern Spain is killing everything in its path as it moves down rivers and manmade channels to the Gulf of Cádiz. Picture, Page 3

Balkan border clash
Fighting flared between Yugoslav army troops and ethnic Albanian rebels on the border between Albania and the Serbian province of Kosovo. Page 2

Cancer gene discovery
A single gene may determine whether or not a smoker develops lung cancer, says a team of Scottish scientists.

Non-market tag dropped
The EU voted to drop its definition of Russia and China as "non-market economies" in a move to improve relations. Page 8

New Russian cabinet
Russian prime minister Sergei Kiriyenko was pressed to include political opponents in his new cabinet. Page 2

BUSINESS NEWS

Siebe aims for top place with £421m agreed bid for Eurotherm group

Siebe, UK engineering group, moved to become the world leader in process automation, making a £421m ($701m) agreed bid for Eurotherm, UK-based temperature controls and drives group. Page 19; Comment, Page 24

Astra, Swedish pharmaceuticals group, reported a 14 per cent rise in first-quarter profits, driven by strong sales of Losec, its anti-ulcer agent which is the world's top-selling prescription drug. Page 19

Crédit Lyonnais' chief raised the stakes in talks between France and the European Commission over a rescue plan for the bank, saying comments by Brussels last week had cost it up to FFr1bn ($166m) in deposits. Page 20

Hoechst, German chemicals and pharmaceuticals group, plans to complete its transformation into a purely life sciences company by 2000. Page 20

Istituto San Paolo di Torino, Italy's biggest commercial bank, and IMI, Rome-based banking group, received the go-ahead for a merger. Page 20

Retevisión, the new Spanish fixed telephony operator controlled by Telecom Italia and the domestic power group Endesa, will enter a last-minute bid for Spain's third cellular phone licence. Page 18

Landmark office buildings in San Francisco and New York are close to being sold in transactions expected to set new benchmarks for property deals. Page 19

Tyco International, US manufacturer and supplier of industrial products, is to step up its takeover programme in Europe, Asia and South America. Page 22

IBM is to build and operate the new settlement bank which is being set up to handle the $3,500bn of foreign exchange trades settled each day. Page 4

Abitibi-Consolidated, the world's largest newsprint producer, cut costs to achieve first-quarter earnings of C$57m ($40m). Page 22

WPP, world marketing services group, said it was on course to widen its margins by a further one percentage point. Page 24

Toshiba, Toyota and Fujitsu have set up an in-car multimedia service offering video, music, internet and navigation systems. Page 19

Lion Nathan shares fell after Kirin Brewery, Japan's largest brewer, spent NZ$1.33bn (US$745m) to acquire a controlling 45 per cent stake in the New Zealand-based brewer. Page 23

World Equity Markets
The latest trends and data from more than 50 national markets at a glance.
Page 41

World stocks slide on rates fears

Markets lower as investors anticipate Fed action to cool down US economy

By Gerard Baker in Washington and Simon Davies in London

World stock prices fell sharply yesterday as investors took fright at the possibility the Federal Reserve would raise interest rates soon.

At midday, the Dow Jones Industrial Average of 30 leading stocks was 146 points lower, or about 1.7 per cent, at 8918. Bond prices fell sharply and the yield on the benchmark 30-year Treasury bond moved back above 6 per cent for the first time since March 6.

European markets fell more sharply, responding to the US, and also to concerns that a recovery in European economic activity could mean interest rate rises in the near term in Germany and France.

In the UK, the blue chip FTSE 100 index fell 141.5 points to 5722.4, its lowest level since early March and its biggest one day fall since December 19, in points terms. The Italian stock market fell by 6 per cent, the Netherlands lost 5 per cent of its market value, and most of the other European markets fell by between 2 and 3 per cent.

The fall on Wall Street was prompted by fears that the continuing buoyant demand in the US economy might force the central bank to raise short-term interest rates for the first time in more than a year.

The Fed had no comment yesterday on a report in the Wall Street Journal that its policy-setting open market committee had shifted its stance last month to a bias towards tightening policy from its previous neutral position.

As the Asian crisis seems to have had little effect on the economy in the last few months, Fed officials have shifted their focus back on to the strength of domestic demand.

Last week Roger Ferguson, a member of the Fed's board of governors, said if the Asian effect did not slow the economy the Fed might have to act itself. The strength of the US economy was underlined yesterday with a report that existing home sales surged by 2.5 per cent last month to a record annual rate of 4.89m sales.

The Fed's policy-making open market committee will meet again on May 19 to review policy, and a growing number of economists forecast the central bank will vote to raise interest rates at either that meeting or within the next few months.

However, Robert Rubin, the Treasury secretary, yesterday forecast further falls in inflation and further declines in long-term interest rates.

"The problems in Asia will . . . most likely result in lower inflation in this country and lower interest rates," he told reporters.

In Europe, the markets that gained the most in recent months fell the furthest.

George Hodgson, European strategist at ABN Amro, said: "We are running into the May Brussels summit, and any risk manager worth his salt is going to want to take some profits in advance. But I think there's more life yet in the bull market."

The European bond markets drifted lower last week on growing fears that interest rates are unlikely to go much lower among the core European economies, although there is still room for further downward convergence in Spain and Italy.

David Bowers, European equity strategist at Merrill Lynch, said: "These falls reflect the fact that the interest rate environment in Europe has changed."

What bubble? Page 17
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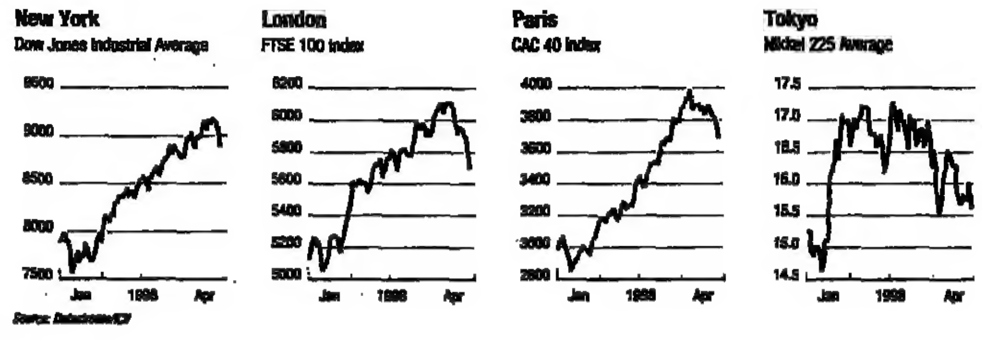

Kohl steamrollers party leaders into backing his re-election bid

By Peter Norman in Bonn

Helmut Kohl, Germany's chancellor, yesterday steamrollered the leadership of his Christian Democratic Union into backing his bid for a fifth term as chancellor in spite of the party's disastrous performance in a state election in the eastern German state of Saxony-Anhalt on Sunday.

Disputes over policies have riven the CDU and the Christian Social Union, its Bavarian sister party, for several weeks and have spilled over into discontent with Mr Kohl.

But the chancellor announced that no one in the party leadership was questioning his candidature for the September 27 general election.

After a five-hour meeting with the CDU's national leadership in which Mr Kohl challenged dissenters to make their opposition known, he declared: "Kohl the candidate is in the position to win the general election. He is determined to do so, and he will demonstrate that."

Mr Kohl conceded that the CDU, which saw its share of the vote in Saxony-Anhalt fall to 22 per cent from 34.4 per cent four years ago, suffered a "serious defeat". But he added: "We agreed with one voice that the rows are ended."

The backing for Mr Kohl came as Germany's political parties struggled to come to terms with the gains of the far-right German People's Union (DVU), which won 12.9 per cent of the vote in Saxony-Anhalt and will occupy 16 of 116 seats in the new state parliament.

Mr Kohl pointed out that far-right groups had scored gains in previous German regional elections and predicted the DVU would have no chance in the general election.

The DVU gains detracted from the Social Democratic party's election win. Although the SPD share of the vote rose from 34 per cent to 35.9 per cent, the gains were less than predicted in opinion polls and fell short of the 40 per cent share on which Reinhard Höppner, the SPD state premier, had pinned his hopes.

The SPD wanted a strong showing in Saxony-Anhalt to give a further push to the political bandwagon running in favour of Gerhard Schröder, its candidate for chancellor.

Instead, Mr Höppner's comparatively disappointing performance, combined with strong DVU support and the ability of the former communist Party of Democratic Socialism (PDS) to maintain its share of the vote with 19.6 per cent, yesterday forced the state premier to seek a grand coalition in the state with the CDU.

Mr Höppner made the move reluctantly. Early yesterday, he insisted a grand coalition was not his sole option and he would talk to both the CDU and the PDS.

But after meeting Oskar Lafontaine, the SPD leader, in Bonn, Mr Höppner announced that he would only open coalition negotiations with the CDU.

Germany's east turns, Page 2
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Eye to eye: Cuban president Fidel Castro with Canadian premier Jean Chrétien at Mr Chrétien's arrival ceremony in Havana. They are in talks over plans to promote and protect investment. Report, Page 18 Picture: Reuters

Reed in $1.65bn deal to buy Times Mirror units

By Cathy Newman in London

Reed Elsevier, the Anglo-Dutch publisher, yesterday agreed to spend $1.65bn on two businesses owned by Times Mirror, creating the second biggest legal publisher in the US.

The deal, to buy Matthew Bender and the 50 per cent of Shepard's Company not already owned by Reed, will create a company second only to Thomson in the sector.

Matthew Bender, formed more than 100 years ago, publishes analytical legal information written by 1,500 lawyers, judges and law professors. Reed has operated Shepard's, a database of legal cases, in partnership with Times Mirror since November 1996.

Observers, who had expected Reed to pay about $1bn for the two companies, said the price was high after stiff competition from trade and financial buyers.

Reed, jointly owned by Reed International of the UK and Elsevier of the Netherlands, saw its shares slide 24p to 563½p.

Nigel Stapleton, co-chairman of Reed, said the company's offer was only "marginally ahead of the next highest bidder".

The acquisition reinforces Reed's position in the US legal information market following the $1.5bn purchase in 1994 of Lexis-Nexis, the world's largest provider of online information services in the legal, news, business and government areas. The latest purchase, in cash, had been expected after a merger with Wolters Kluwer, the Dutch publisher, fell through this year.

Yesterday's deal, which will yield up to $20m in cost savings, could "comfortably" be followed by others of a similar size, Mr Stapleton indicated.

The acquisition, which would give Reed about 30 per cent of the US legal and tax information market, is subject to regulatory approval. But analysts said Reed would be unlikely to run into difficulties as Thomson's purchase in 1996 of West Publishing, the biggest US legal publisher, was cleared by the US justice department, subject to some conditions.

Mr Stapleton said the deal would not be "significantly harmed" if Reed had to make minor disposals. He added that Lexis-Nexis and Matthew Bender complemented rather than overlapped with each other.

Some observers were surprised that Mosby, Times Mirror's medical publisher, was not included. An announcement about the disposal of Mosby, which Reed might also buy, is likely to be made within a few weeks.

Last year, Matthew Bender reported revenues of $192.9m and earnings before interest, tax and exceptional items of $59.2m. Shepard's announced revenues of $67.9m and earnings before interest and tax of $38.5m.

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Birth of the Euro

This week the European Union will select the founder members of economic monetary union in the most far reaching development in Europe this decade. In a special section on Thursday, FT writers look at the creation of the new euro-zone, which will make up the second-largest economy in the world.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8907.68	(−155.94)
NASDAQ Composite	1814 07	(−54.89)
Europe and Far East		
CAC40	3685.63	(−97.51)
DAX	5088.13	(−56.15)
FTSE 100	5722.4	(−141.5)
Nikkei	15,649.95	(−351.29)
US Lunchtime RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.070%	
Long Bond	100⅞	
Yield	6.070%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(7⅞%)
UK: 10 yr Gilt	109.6484	(109.536)
France: 10 yr OAT	103 40	(103.31)
Germany: 10 yr Bund	106.88	(106.76)
Japan: 10 yr JGB	110 05	(110.08)
NORTH SEA OIL (Argus)		
Brent Dated	$13.645	(13.33)

GOLD		
New York: Comex		
(Apr)	$309.9	(312.9)
London:		
	$310.25	(312.55)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6719	
DM	1.7883	
FFr	5.9945	
SFr	1.4873	
Y	132.23	
London:		
£	1.6697	(1.6684)
DM	1.7896	(1.7353)
FFr	6.0014	(6.0197)
SFr	1.4897	(1.4947)
Y	132.245	(131.03)
Tokyo Close		Y 132.85
Sterling		
DM	2.9880	(2.9917)

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WORLD NEWS
EUROPE

Kosovo violence 'spinning out of control'

By Guy Dinmore in Pristina and Lionel Barber in Luxembourg

Fighting flared between Yugoslav troops and ethnic Albanian rebels yesterday, on the border between Albania and the Serbian province of Kosovo. But the European Union steered clear of threatening fresh pressure on Yugoslavia.

EU foreign ministers meeting in Luxembourg indicated a preference for a "carrot and stick" policy towards Slobodan Milosevic, the Yugoslav president, rather than supporting US calls for further economic sanctions.

Diplomats in Pristina, Kosovo's capital, said they feared the ethnic violence in the province was spinning out of control. A build-up of the Yugoslav military indicated an offensive was being prepared. More than 120 people have died in the conflict this year.

The six-nation Contact Group, made up of Britain, France, Germany, Italy, Russia and the US, is due to meet in Rome tomorrow to discuss the crisis.

The EU is pressing Mr Milosevic to open a dialogue with Kosovo's Albanian leaders in the presence of a mediator, preferably Felipe González, the former Spanish prime minister.

The Yugoslav army said that, in the latest incident, its border forces had killed three armed Albanians and wounded four in a clash west of the Serbian town of Decani. Troops were said to have uncovered large caches of weapons smuggled from Albania, as well as bunkers.

The Democratic League of Kosovo (LDK), the main ethnic Albanian party demanding independence for the province, accused the army of launching an artillery attack near the border village of Voksa, killing about 12 people. An LDK official said more than 60 tanks had been seen moving towards border settlements.

Police barred reporters from the area, so no independent confirmation was possible.

Villagers in Erec, to the south of Decani, yesterday buried nine men, among 23 ethnic Albanians killed last week. The government says they were "terrorists" ambushed by the army while crossing into Kosovo from Albania. Relatives allege some of the victims had been detained by police near Erec, then killed. Panic is spreading through Kosovo, where ethnic Albanians make up most of the province's 2m people.

The LDK accuses the authorities of handing out weapons to Serb civilians and paramilitary forces that took part in the "ethnic cleansing" of non-Serbs during the wars in Croatia and Bosnia. The government blames the violence on "terrorists" of the shadowy Kosovo Liberation Army.

Germany's east shows signs of turning to the right

Frederick Stüdemann on fears that strong gains by the DVU in the Saxony-Anhalt poll could be repeated in the general election

For most of the 1990s, the warning signals have been present in eastern Germany: persistently high unemployment, hostility towards foreigners and a general social malaise.

Now, for the first time since Germany's unification in October 1990, an extreme rightwing party has entered a state parliament in the former communist east.

After making a late entry into the campaign, the German People's Union (DVU), won almost 13 per cent of the vote in Saxony-Anhalt, the poorest of the region's five states.

Voting habits in the east, where Chancellor Helmut Kohl's Christian Democratic Union has lost its once formidable base of support, are volatile enough to have significant implications for Germany's general election on September 27.

While the Social Democrats – in opposition in Bonn, but in government in Saxony-Anhalt – were disappointed that expectations of considerable gains were not realised, the result is particularly worrying for the CDU and Mr Kohl.

Support for the "unification chancellor" in the region is dropping. Eight years after the west's costly takeover of the east and despite continuing annual transfers of DM180bn ($100.5bn), easterners still sense little indication of an upturn. Successes such as rising manufacturing output, tremendous improvements in infrastructure, greater flexibility in wage negotiations and less bureaucracy may be seized upon by economists, but have gone largely unnoticed by the population at large.

Before Sunday, the major western parties worried about continuing strong support for the PDS, which in the past has garnered protest votes in the east. The sudden appearance of the DVU, which polled strongly among the young, takes the total extremist vote in Saxony-Anhalt to more than 30 per cent and has given even greater cause for concern. "We know that 10-15 per cent of voters in east and west support hard rightwing attitudes," said Peter Lösche, professor of political science at Göttingen University. "It is almost a miracle that until now this potential in the east has not been mobilised, when economic conditions are almost worse than they were during the Great Depression in the 1930s."

In Saxony-Anhalt the rapid decline of the heavy engineering and chemicals industries has pushed official unemployment to more than 23 per cent and made conditions there more acute than elsewhere in the east.

Along with most pundits, Mr Lösche sees the DVU's strong showing as a mixture of genuine far-right views and general protest.

Wolfgang Thierse, deputy chairman of the SPD and an easterner, said: "It's a demonstration of the anger, despair and annoyance with high unemployment."

Indeed, the main slogan in the DVU's poster and mail-shot campaign was: "This time, vote for protest." The party, which is backed by Gerhard Frey, a millionaire publisher from Munich, had neither a manifesto nor constituency candidates. "They are a phantom party," Mr Thierse said.

But Mr Lösche said that the DVU's performance in Saxony-Anhalt "is an incentive for rightwing voters and parties everywhere [in Germany]. It will be interesting to see what happens in September in the elections in Bavaria where the [far-right] Republicans are quite strong."

Henry Reinbold, head of crime at Magdeburg's police department, which has monitored rising youth violence in Saxony-Anhalt's capital, also believes extremist votes will not be confined to the east. "I think we will see this type of protest in the west as well. It reminds me of the time back in the 1970s when the NPD [a far-right party prominent in the 1960s and 1970s] scored high in my home region, Lower Saxony."

Against such gloomy predictions is the fact that the far right is split into several parties, often more at war with each other than their supposed common enemies. National polls record low support for far-right parties, though some have sporadically entered parliaments in the west at state level.

Perhaps the main worry for the CDU and SPD is that Saxony-Anhalt confirms the differences in voting habits between east and west. In the east, dramatic swings in support demonstrate that easterners are less loyal to any one party than westerners, Mr Lösche said.

With the 1994 national elections decided by less than 200,000 votes and this year's contest wide open, volatility in the east could determine the outcome of the general election.

See Editorial Comment

Saxony-Anhalt election result

	1998		1994	
	% vote	seats*	% vote	seats*
Social Democrat (SPD)	35.9	47	34.0	36
Christian Democrat (CDU)	22.0	28	34.4	37
Party of Democratic Socialism (PDS)	19.6	25	19.9	21
Greens	3.2	–	5.1	5
Free Democrats (FDP)	4.2	–	3.6	–
Deutsche Volksunion (DVU)	12.9	16	–	–

Source: Provisional official result

* The new state parliament will have 116 seats against 99 previously

Gerhard Frey's DVU won unexpected support

Kiriyenko warned over cabinet jobs

By Chrystia Freeland in Moscow

Sergei Kiriyenko, Russia's prime minister, was pressed to include political opponents in his new cabinet ahead of a planned meeting today with President Boris Yeltsin to select the government's new ministers.

The Kremlin's leading ally in parliament, Alexander Shokhin, said that unless Mr Kiriyenko made concessions to the leftist opposition now, his cabinet could be short-lived. The new prime minister was confirmed in his post last Friday.

However, Mr Yeltsin, who humbled his Communist critics last week by forcing through Mr Kiriyenko's appointment, is unlikely to feel too threatened by Russia's divided left.

Instead, as he forms his new government, he is likely to be more concerned about the populist political threat posed by Alexander Lebed, the former general who is poised to win gubernatorial elections in Krasnoyarsk, a vast and wealthy Siberian province, in a run-off vote next month.

Mr Shokhin, head of the pro-government Our Home is Russia parliamentary faction and one of Mr Kiriyenko's legislative supporters, urged the Kremlin to be generous in its victory. Otherwise, he warned, the defeated parliament might seek revenge in autumn. "Many people give this government half a year. They think that in the autumn the leftist opposition will get its own back for the humiliation suffered by the Communist party," Mr Shokhin said, alluding to predictions that the Communists might seek a vote of no-confidence in the government.

To secure the co-operation of the Duma, the lower house of parliament, Mr Shokhin said the Kremlin would be advised to take the legislature into account when forming the new government. "If we notice that the choice is being made that way [conciliating the Duma], then it means the president is interested in extending the political life of this government," Mr Shokhin said.

Mr Yeltsin is expected to reappoint several key ministers including Mikhail Zadornov as finance minister, Yevgeny Primakov as foreign minister, and Igor Sergeyev as defence minister. He has already said the threesome, together with Sergei Stepashin, recently named as minister of the interior, will stay on. Boris Nemtsov, the first deputy prime minister, is also expected to keep his job.

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ENVIRONMENT COUNTRIES HOLDING PRESIDENCY TO BE MONITORED

Audit will track EU progress on policies

By Charles Batchelor and George Parker

Progress on environmental policies in the European Union is to be measured by means of a common audit procedure agreed by the UK and its three successors as holders of the European Union's presidency, John Prescott, deputy UK prime minister, has told the FT.

At the same time, Britain is keen to see closer integration of environment and transport policymaking in Europe by the creation of a single directorate-general and a single European commissioner responsible for both areas.

Mr Prescott was speaking last weekend at the first informal meeting of European environment and transport ministers in Chester, where measures to increase rail freight, encourage low-emission vehicles and control traffic and pollution in city centres were discussed.

The environmental audit is intended to measure the contribution each country makes during its six-month presidency and overcome the problem of short-term initiatives being launched by individual countries. The next three holders of the rotating EU presidency are Austria, Germany and Finland.

The audit will measure the actions taken by the country holding the presidency rather than specific items of environmental concern such as vehicle emissions or pollution. "The idea is to pass on an environmental baton to the next holder of the presidency," said Mr Prescott. "We have reached an agreement with the next three holders of the presidency which will take us to the new millennium."

If this is successful, Mr Prescott hopes it will be continued by subsequent holders of the presidency.

Britain will be the first country to produce a report on its own environmental actions at the end of its presidency in June. Final details of the scheme will be put to an EU summit in Cardiff in June. "This will allow us to establish a set of common criteria and to identify targets which we can measure ourselves against," said Mr Prescott. "It is a good way of keeping up pressure on governments." Presidencies of six months mean that countries may start an initiative or complete one but rarely see them through all the stages, said Mr Prescott.

The three countries which have joined the UK in this initiative all have strong environmental movements, said Mr Prescott.

As part of its efforts to integrate transport and environment policies more closely, the UK is keen to see a single European commissioner for both areas of policymaking. But the UK does not want to be seen to be forcing this approach among other members and believes the reshuffling of portfolios which will take place on EU enlargement may be the time to consider this step.

"We have tried to argue that decision-making procedures in the Commission need to be changed," said Mr Prescott. "It would be good to have a single commissioner for both, but in itself this is no guarantee that problems will be solved, because this also involves industry and competition issues."

NEWS DIGEST

AEGEAN DISPUTE

Greece refuses to lift veto on EU aid to Turkey

Greece yesterday refused to lift its veto on an Ecu375m ($416m) European Union package for Turkey, casting a cloud over efforts to mend fences with the Ankara government.

The Greek stand was greeted with disappointment at a meeting of EU foreign ministers which had hoped to offer a goodwill gesture to Turkey. But Theodoros Pangalos, Greek foreign minister, blamed the impasse on what he called Turkish violations of Greek sovereignty in disputed territory in the Aegean sea. He repeated calls for the Turks to submit their claims to the International Court of Justice in The Hague, and made public a 13-page document entitled "25 years of Turkish provocative behaviour towards Greece".

"It was a spectacular performance," said one EU diplomat, "Pangalos mentioned every Greek grievance apart from the Ottoman empire." The British EU presidency and the European Commission had hoped that the Greeks would show flexibility on the financial package so that long-delayed talks could go ahead with Turkey next month.

The idea is to ease strained relations with Ankara after the EU refused last December to put the Turkish bid for membership on the same footing as candidates from central and eastern Europe. **Lionel Barber, Luxembourg**

ITALIAN AIRPORT ROW

Dini in warning to Alitalia

Lamberto Dini, Italy's foreign minister, yesterday weighed into a political row over the development of Malpensa airport outside Milan, warning that a decision by Alitalia, the national carrier, to shift operations there would "damage Italy's image".

In the wake of a decision by Alitalia earlier this year to transfer ten per cent of its international flights from Rome's Fiumicino airport to Milan before 2000, Mr Dini warned that the operation needed to be reconsidered. "I would be very grateful," he wrote in an open letter to Romano Prodi, prime minister, "for a decisive intervention by you that gets Alitalia to think more carefully about a decision that risks no small embarrassment to Italy."

Mr Dini said it was "hard to understand the idea of excluding Rome from numerous routes that interest countries of importance to Italy." **James Blitz, Rome**

EASTERN ENLARGEMENT OF EU

'Austria stands to benefit'

Austria stands to be the biggest beneficiary after Germany from the eastward enlargement of the European Union, according to Raiffeisen Zentralbank (RZB).

The Austrian bank estimates that if its eastern neighbours join the EU, it will provide an additional stimulus to growth of between 1.5 per cent and 3.6 per cent in the first six to eight years. Last year Austria's exports to eastern Europe rose by 30 per cent to Sch121bn ($9.5bn). Eastern Europe's share of Austria's total exports has risen from 9.9 per cent to 17.5 per cent since 1989.

Many poorer Austrians do not share their government's enthusiasm for enlargement, which will be the big theme of Austria's EU presidency later this year. They fear increased immigration and a worsening of the long-term decline of Austria's poorer regions. **William Hall, Vienna**

CZECH PRESIDENT

Havel to return to Prague soon

Vaclav Havel, the Czech president, who is recovering in an Austrian hospital from emergency surgery on his intestine, should be fit to return to Prague in about a week, his surgeon said yesterday.

Mr Havel, 61, who has suffered from breathing difficulties and an abscess in his abdomen since undergoing the emergency surgery nearly two weeks ago, was awake and moving and the decision on when to return ultimately rested with him.

"Over the weekend his general condition has much improved," said Ernst Bodner, chief surgeon at Innsbruck University hospital. **Reuters, Prague**

ROMANIA ECONOMY

IMF in new round of talks

A top International Monetary Fund official opened talks with Romania's new government yesterday after a series of deadlocked negotiations throughout the first half of the year.

Poul Thomsen, head of the IMF's Romania mission, is holding several days of exploratory talks after a new government under Radu Vasile, prime minister, took office earlier this month.

A government statement issued after Mr Thomsen's first meeting with Mr Vasile said the Fund "would show flexibility in examining the programme, saying that Romania's main priority remained the fulfilment of economic reform objectives". **Reuters, Bucharest**

Plea to Brussels on German TV deal

By Frederick Stüdemann in Bonn and Samer Iskandar in Brussels

The media companies CLT-Ufa and Kirch yesterday presented the European Commission's competition authorities with revised proposals for their German digital pay-TV project.

The move, which came only hours before a deadline for amendments, follows pronouncements from Karel Van Miert, competition commissioner, that he was unhappy with the original plans for a merging of the companies' pay-TV interests and a separate deal with Deutsche Telekom, the partially privatised telecoms company, for ownership and operation of the technical platform for the distribution of digital programming.

The Luxembourg-based CLT-Ufa, in which the German media group Bertelsmann has a 40 per cent stake, and Kirch, a privately-held company based in Munich, said senior executives met Commission officials yesterday afternoon in the hope of getting an extension to the investigation of the planned joint venture. Brussels is due to rule on the link in early June.

A Commission official said an extension was possible if the companies "make proposals that look promising and are constructive."

Both companies, whose executives have accused Brussels of unnecessarily hindering the development of digital television in Europe's biggest media market, refused to comment on their new proposals. But they are believed to address the Commission's fears that the venture could deny other broadcasters access to its distribution system and would also give it a monopoly on the German audience's access to popular films, sports events and programmes.

This is the second time CLT-Ufa and Kirch have faced opposition from Brussels. A similar deal, which also involved Deutsche Telekom, was blocked by the Commission in 1994.

This time the stakes are higher. After the 1994 decision both companies tried to develop rival digital pay-TV services, causing a price war which severely strained Kirch's finances and prompted the Munich-based company to settle with CLT-Ufa last summer.

The deal involved merging DF-1, Kirch's digital pay-tv company owned by Kirch, with Premiere, an analogue pay-TV network owned by Kirch and CLT-Ufa.

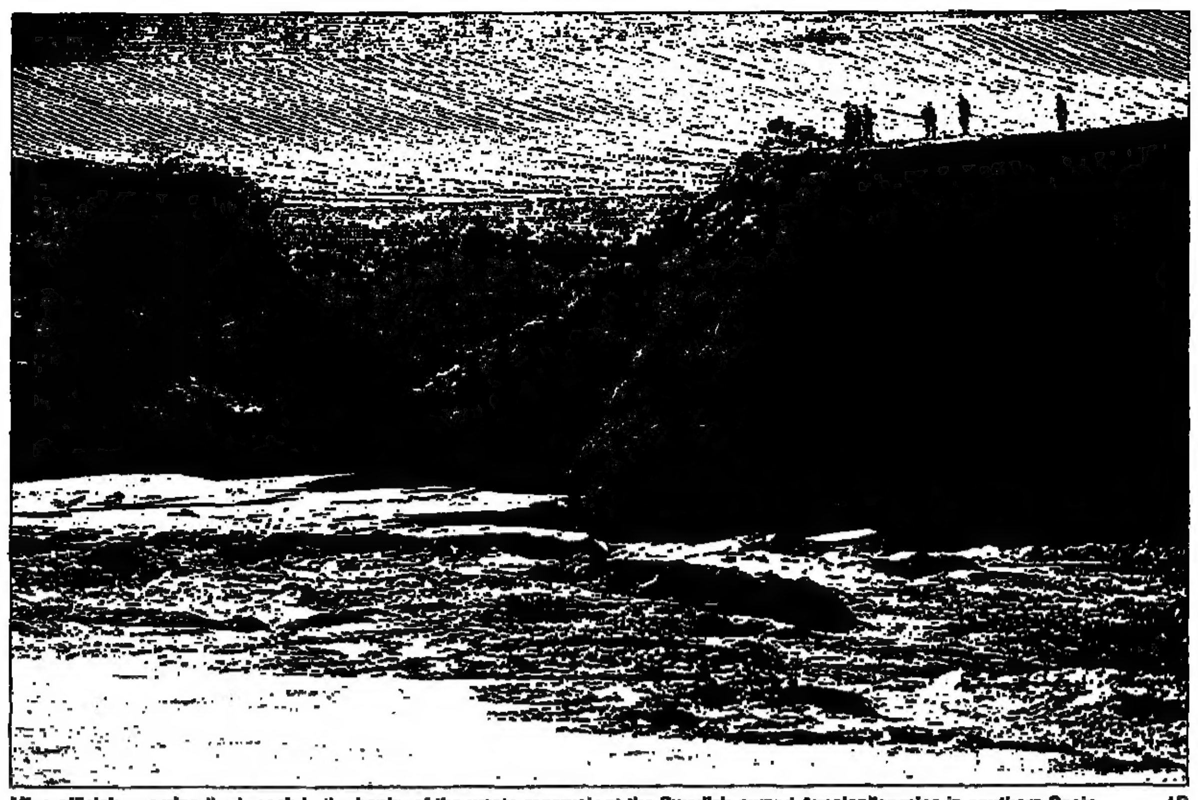
Toxic waste spill hits Spanish crops

A toxic waste spill from a mine reservoir in southern Spain was killing everything in its path yesterday as it moved down rivers and man-made channels to the Gulf of Cádiz, the environmentalist group Greenpeace said.

An estimated 5m cubic metres of waste flooded into the Guadiamar river on Saturday, but was then diverted away from the Doñana National Park, one of Europe's most prized nature reserves. Instead, the tainted water, containing residues of zinc, lead calcium and other metals, was flowing into the Guadalquivir river and then out to the Gulf of Cádiz.

Spanish State television said preliminary estimates put crop losses at Ptas2bn ($13m). "I've lost my whole crop, my whole livelihood," a tomato farmer said.

See Commodities page



Mine officials examine the breach in the banks of the waste reservoir at the Swedish-owned Aznalcollar mine in southern Spain AP

EU staff strike on eve of summit

By Samer Iskandar in Brussels

A strike by European Commission staff is set to begin on Thursday, after the failure of four days of conciliation talks on Sunday evening.

The Commission and union staff will now hold technical discussions to avoid a total paralysis of the European Union's executive on the eve of the decisive summit to on economic and monetary union.

Six of the 10 unions representing Commission employees called for the one-day strike in protest at plans to end job security. The plans are part of a wider effort by Erkki Liikanen – the Finnish commissioner in charge of budget, personnel and administration – to increase efficiency and transparency.

A Commission official said the unions "did not respond positively" to an offer to water down an internal document at the heart of the dispute.

The Commission had said the document – entitled "Tomorrow's Commission" – would have "no official status" and would not be the starting point for discussions. But union officials have insisted it be declared null and void and withdrawn from the Commission's intranet, where it can be viewed by staff.

The controversial document, part of preparations for a debate next month on modernising the Commission, questions existing practices, such as "less than perfect management" and recruitment based on "political considerations", and suggests "a system of rewards and penalties" for senior staff.

The unions feel these proposals threaten the job security of European civil servants, who are practically guaranteed employment for life and substantial benefits. The 10 unions represent between 8,000 and 10,000 of the Commission's 17,000 workforce.

560,000 Danes stop work

By Tim Burt in Stockholm

Danish industrial output and transport services were disrupted yesterday on the first day of a national strike by more than 560,000 workers.

Copenhagen airport was almost at a standstill, rail and ferry services were halted and many shops were emptied of perishable goods as the country prepared for a long stoppage.

The strike, called last Friday after union members voted to reject a two-year wage agreement, is the most serious industrial action to hit Denmark since 1985 and is expected to last for at least a week.

The strike was called after 150,000 union members voted against a new pay deal, which would have increased wages by 4.5 per cent this year and 4 per cent next.

Union leaders, many of whom had initially recommended the offer, said the strike had partly been triggered by dissatisfaction at proposals to increase five-week holiday entitlements by just one day.

Yesterday, the government reiterated it had no plans to intervene in the dispute between the LO union and the employers' confederation.

The Social Democrat-led government could push through emergency legislation to force a settlement, but Danish economists said it was unlikely to resort to such action before the May Day holiday.

"Given their links with the unions, the Social Democrats will be reluctant to use strong-arm tactics to end this strike," said one economist.

The minority government of Poul Nyrup Rasmussen, prime minister and a former trade union economist, is unwilling to alienate union members ahead of Denmark's May 28 referendum on the Amsterdam Treaty.

Mr Rasmussen has vowed the referendum will go ahead, and is calling for a vote in favour of the treaty, involving closer ties with the European Union.

New element finds its way into the Spanish equation

Aznar must now contemplate an unexpected and charismatic opponent in the next general election, **David White** reports

A new factor has entered the Spanish political equation. By plumping for José Borrell, the brainy son of a small-town baker, as their candidate for prime minister, members of the opposition Socialist party (PSOE) have not only shaken up their own organisation but rattled assumptions across the whole range of national and regional politics.

José María Aznar, the centre-right prime minister, apparently comfortable with almost two years of his term still to go, must now contemplate an unexpected and charismatic opponent in the next general election.

Mr Borrell, a former public works minister, has already proved his sharpness as a tactician, lying fairly low after the defeat two years ago of Felipe González's Socialist government and seizing his opportunity to move to the forefront in the party Mr González left behind.

His rise bears a striking similarity to the success of Lionel Jospin, the French Socialist prime minister, when he was chosen as the party's presidential candidate in early 1995, surprisingly trouncing the then Socialist leader, Henri Emmanuelli (though he was to lose the election to Jacques Chirac).

Mr Jospin skilfully distanced himself from the regal shadow of François Mitterrand. Mr Borrell, too, has sought to distinguish himself from Felipe González, in whose government he served, and project himself as the standard-bearer of a new era for the party.

At the same time, he has made it his target to recreate the kind of popular enthusiasm which swept Mr González into power over 15 years ago. For the PSOE, his triumph promises to draw the curtain on the long agony of the end of Mr González's political domination.

This involved the corruption cases under Mr González's government, his hesitations about continuing, his defeat in 1996, his surprise resignation as party leader last June and the PSOE's weak and ineffectual performance in opposition.

But the agony is not yet over. Mr Borrell's win in the candidacy contest was described by one of his leading backers – Juan Carlos Rodríguez Ibarra, PSOE president of Extremadura and stalwart of the party left – as "a bitter victory".

The question of the leadership has been reopened. Joaquín Almunia, a moderate and solid figure who succeeded as secretary-general last year and went on to stage his own defeat by introducing a system of "primaries" for elected posts, is still pondering whether he should stand down.

Mr Borrell has asked him to stay on and avoid holding the special congress required to approve a new leadership. "The party doesn't need to waste six months in leadership changes," he said.

The standard practice for Spanish parties, apart from the Basque Nationalist Party, is that their leaders head their list of election candidates. An exception occurred in the centre-right Popular party (PP), where Mr Aznar became prime ministerial candidate in 1989 before being installed as party president.

Mr Borrell, 51, has been a political loner, not associated with any of the clans within the PSOE, a challenger of economic orthodoxy, wary of "isms" and reluctant to get mixed up in the regional politics of his native Catalonia.

Borrell celebrates with a rose

He is not short of enemies inside and outside the party. José Bono, a PSOE regional "baron" who clashed with Mr Borrell when the latter was a minister, warned that choosing him as candidate would be like "jumping into a ravine".

Suspicious of regionalism, Mr Borrell had difficult relations with Jordi Pujol, the Catalan leader who in the past two parliaments has controlled Spain's political balance, supporting first the PSOE and then the PP.

Whereas Mr Almunia set his sights on regaining lost votes in the centre, Mr Borrell has directed his on rallying the left. Defending the public sector's role and the aims of the welfare state, he also echoed some themes of New Labour in the UK, by emphasising the need for innovation and imagination.

The division of the left has seriously impaired the PSOE's chances against a PP which occupies the ground from centre to far right. Proposals for a common platform with the Communist-led United Left (IU) fizzled out after a dismal regional election performance in Galicia last autumn.

If Mr Borrell were to succeed in winning votes away from the Communists, whose leader, Julio Anguita, he has described as "a biblical disaster", it could change the arithmetic. In the 1996 election, the PSOE and IU between them obtained 48 per cent of the vote, against a combined 45.5 per cent for the PP and its current regional allies.

But he still has a long way to go. Supporters during his candidacy campaign wielded placards reading "*Ilusión* is back". The word *ilusión* signifies in this context a sense of hope and excitement, although it can also mean delusion.

Prepared for Emu? It's time to live with the euro

€ Preparing for Emu

By Wolfgang Münchau, Economics Correspondent

This is the last in our "Preparing for Emu" series, which we started on November 12, 1996. By this time next week, European Union leaders will have given the official go-ahead for economic and monetary union to start with 11 founder members on January 1 1999.

From now on, the issue is no longer simply one of preparing for Emu, although companies, governments and central banks will undoubtedly carry on with their preparations. From now it appears more appropriate to focus on "Living with the euro" – the title of a new series, starting next week.

Sixteen months ago, the scheduled launch of Emu was still uncertain. There were genuine doubts about which countries would qualify to meet the stringent entry conditions, even about the fitness of Germany and France, where rising unemployment put budget deficits under pressure. The EU's economy was in recession, characterised by rising unemployment, increasing deficits and debts and falling rates of output growth. It was not until the second part of last year until the economy began to pick up.

Unsurprisingly, perhaps, the scepticism was greatest in the UK, where many politicians and financial commentators and most of the news media displayed an almost spectacular misjudgment of the events that ensured Emu's scheduled launch. Even people like the former prime minister, John Major, and the former chancellor, Kenneth Clarke, argued as late as April 1997 that Emu would probably not start on time.

One consequence of this has been that UK companies, except for some multinational industrial groups, are now among the worst prepared of any in the EU. The government admitted that the current state of preparations in the UK was one of the reasons that precluded Emu entry in 1999.

But the sceptics misjudged the process by which EU economies, including Italy, Spain and Portugal, succeeded in meeting the economic qualifying criteria laid down in the Maastricht treaty. Some of the more visceral critics totally misread the German institutions, in particular the Bundesbank and the German constitutional court, hoping that they might block the project at the last minute. They mistook German scepticism on Emu for a general Euroscepticism. In fact, many of the German critics of Emu tended to attack it from the other side of the debate. They wanted political union alongside monetary union.

Continental politicians and central bankers often say that failure is not an option; Emu must succeed

But the sceptics are not quite finished yet: they have moved on to predict that the project will collapse – a theme that is now attracting an increasing amount of academic interest.

For the members of Emu, however, who will now have live with the euro for better or worse, the issue is not one of delay or collapse scenarios or other exotic variants. Their main focus is how to make Emu succeed.

Economists do not have an answer to this question – or rather they have too many conflicting answers. It is uncertain whether and to what extent Emu will affect the real economy of growth and jobs. Some economists argue that wage and price transparency would accelerate the number of cross-border transactions, or lead to increased price harmonisation and possibly reduced trading margins. It could also accelerate the restructuring process that has been going on in many industries throughout the decade.

This scenario implies that Emu could lead to an initial increase in unemployment, as labour and product markets become more flexible to accommodate demand and supply shocks.

Other, equally plausible, scenarios suggest that Emu will make no difference to the real economy one way or the other. The debate is not settled yet and will probably not be settled for some time. As a unique experiment, Emu will probably teach us more about economics, than economics can currently teach us about Emu.

When asked about the likelihood of success or failure of monetary union, continental politicians and central bankers often say that failure is not an option: that Emu must succeed under any circumstances.

But what steps they will have to take are still unclear.

The deregulation of labour, product and financial markets may be accelerated; taxes may be harmonised; the size of the EU's central budget could be increased to lend stability to a system characterised by considerable centralisation in monetary policy but considerable decentralisation in fiscal policy. Economists are even divided whether fiscal policy matters at all.

Nevertheless, it is entirely possible, if not probable, that the sceptics, having underestimated the political will behind the launch of Emu, may end up under-estimating the political will to hold it together.

OECD MINISTERIAL MEETING THINK-TANK PLEA TO FOSTER INNOVATION THROUGHOUT ECONOMIES

'Use technology to create jobs'

By Robert Chote, Economics Editor

Industrial countries devote too much effort to promoting new technology in the small "high-tech" sector, rather than fostering innovation and technology diffusion more broadly through the economy, ministers heard yesterday.

The Organisation for Economic Co-operation and Development, the Paris-based think-tank for industrial country governments, insisted in a report to its ministerial meeting that new technology should promote jobs rather than destroying them. "Its economy-wide employment impact is likely to be positive provided that the mechanisms for translating technology into jobs are not impaired by deficiencies in training and innovation systems and rigidities in product, labour and financial markets," the report said.

OECD OCDE

The OECD argued that governments should make innovation and technology diffusion policies an integral part of their overall economic strategy.

"Technology policies continue to be piecemeal, with insufficient consideration given to linkages within national innovation systems and to the broader structural reform agenda," it admonished. "To be effective, they need to operate in a stable macroeconomic environment and complement broader reforms."

The OECD noted that government funding for research was falling and that the private sector was concentrating on short-term innovation rather than basic research. It argued that public research institutions had to be funded adequately, although there was scope to make them more flexible by channelling resources through contracts.

"At the same time, governments should remove impediments to the development of market mechanisms for financing innovation, such as private venture capital," the report argued. This chimes with recent comments by Gordon Brown, UK chancellor. Partnerships between the private and public sectors should be encouraged, but while minimising the risk that this would channel money to private sector companies that should or would have financed the research themselves.

In another report prepared as part of the OECD's "jobs strategy", the think-tank argued that governments should also do more to foster entrepreneurship. Again the promotion of venture capital markets is important, as is reducing the cost and paperwork associated with starting a business. Tax compliance also needs to be simplified.

The report also emphasises the need to use local authorities to promote entrepreneurship, on the grounds that they understand the needs and potential of their own areas. Governments should also do what they can to create a culture conducive to entrepreneurship, one in which business failure does not carry an unduly negative stigma.

The final report discussed under the heading of the jobs strategy looked as investment in human capital – skills and education. It noted that there was agreement that investment in human capital should be encouraged, but great difficulty quantifying it and therefore assessing policy effectiveness.

The report noted that between a third and a half of adults in industrial countries lacked the kinds of literacy skills needed to function well in modern society. The distribution of human capital and earning power is worryingly skewed.

The OECD argued that policies should focus more on the costs and benefits of particular policies. It noted that some money spent on college and university education might yield more benefit for society as a whole if it was spent on ensuring that more people completed upper secondary education.

OECD SPENDING ON LONG-TERM CARE FOR ELDERLY NEEDS TO BE MORE COST-EFFECTIVE, SAYS REPORT

Research 'should focus on the aged'

By Robert Chote

Medical research and technology should be focused on areas such as senile dementia and arthritis, which rob older people of their independence, according to a report discussed by ministers from leading industrial countries yesterday.

Spending on health and long-term care, for the elderly needs to become more cost-effective, the report on ageing by the Organisation for Economic Co-operation and Development, said.

The report was discussed at the OECD's ministerial meeting in Paris.

"People are leading longer and healthier lives", the report noted.

"Nevertheless, population ageing means that health and long-term care costs are likely to rise, although perhaps by less than was once feared".

The report noted that care-giving for frail old people was often fragmented and unnecessarily expensive.

The industrial country think-tank is only the latest of several international forums to offer its thoughts on the implications of an ageing population.

It noted that over the next 25 years the number of people aged 65 and over would rise by 70m, while the number of those of working age would rise by 5m.

Many of the report's conclusions were familiar. Countries were urged to cut government borrowing and move to a mix of public and private pension provision.

The report also noted that the development of funded pension systems should go hand-in-hand with reform of financial market infrastructure.

"Middle and higher-income earners will want to supplement their public pensions," the report said.

"Therefore, it will be important to establish a sound regulatory framework for private pension funds, including occupational pension schemes".

The OECD said that pension and tax systems and social programmes provided a strong disincentive for the elderly to keep working.

"Removing these disincentives, perhaps even providing positive incentives to work longer, and coupling them with effective steps to enhance the employability of older workers, could make an important contribution to sustaining the growth of living standards," the report added.

Also, it said that employers would have to change their attitude to employing older workers.

IBM to build forex settlement bank

By George Graham, Banking Editor, in London

IBM is to build and operate the new settlement bank which is being set up to handle the $3,500bn of foreign exchange trades settled each day.

CLS Services, the consortium set up by a group of leading international banks to handle the foreign exchange settlement problem, said it had chosen IBM to design and build the new settlement system and to operate it for at least five years after it starts up in mid-2000. The communications will be supplied by Swift, which operates the main interbank network.

Yesterday's announcement coincides with the deadline set two years ago by central bankers for the private sector to come up with a solution to the problem of settlement risk in foreign exchange trading. The deadline inspired creation of the settlement bank. It also spurred banks to tighten their internal procedures, and triggered the development of netting services.

Foreign exchange trades today are mostly settled by paying the two different currencies separately. Since banks settle in different time zones, there is a risk – known as Herstatt risk after the collapse of Bankhaus Herstatt in Germany in 1974 – that a bank could fail after receiving one leg of its foreign exchange trades but before paying the other leg.

When the CLS Bank starts up, it will allow both legs of the trade to be paid simultaneously, eliminating the risk that one bank might fail in midstream. Stephen Thieke, managing director of J.P. Morgan and chairman of CLS Services, said the consortium had now taken "significant steps in realising the strategic plan behind the formation of CLSS to eliminate global banking exposures to foreign exchange clearing and settlement".

Membership of CLS Services has already been broadened beyond the group of 20 banks which began the project and now has 40 shareholders. Other financial institutions will be given the chance to sign up over the next two months, as CLS finalises the funding for the settlement bank project.

Industry experts estimate the bank will cost $80m-$90m to set up.

The first stage of the banks' plan to tackle Herstatt risk was the merger of two competing multilateral netting services, Echo in the UK and Multinet in the US. The combined netting service allows banks to reduce their settlement risk by adding all the different gross amounts they owe each other and settling only the net difference.

CLS Services already has 22 banks using its netting system, but the merger of Echo and Multinet has encouraged others to sign up. Another 31 are preparing to join, including some large foreign exchange traders such as Citibank, Bank of America, National Westminster Bank and Bank of Tokyo-Mitsubishi.

After the CLS Bank starts up in 2000, some banks will use it as their main way of eliminating foreign exchange settlement risk, but others will still channel foreign exchange trades through the netting service, using the CLS Bank to settle the netted amounts. The CLS Bank system will be developed by IBM Global Services in Belgium, with assistance from ATOS, a French software company.

Iraq's foreign minister Mohammed al Sahaf in New York yesterday where he will lobby security council members over sanctions

UN set to keep Iraq embargo

By Laura Silber at the United Nations in New York

The United Nations Security Council was last night poised to prolong the crippling embargo in force against Iraq for eight years, ignoring Baghdad's threats and appeals.

The 15 Council members yesterday met behind closed doors to review sanctions based on reports by international weapons experts from the UN and the International Atomic Energy Agency. One report by Richard Butler, chief UN weapons inspector, cited "virtually no progress" over the last six months in efforts to determine whether Iraq had dismantled its arsenal of deadly weapons and their production facilities. The decision could mark the start of another crisis with Iraq over UN weapons inspections.

After Kofi Annan, UN secretary-general, two months ago defused the last big crisis and averted imminent US-led air strikes, Baghdad had expected to gain ground towards the lifting of the sanctions. This was the first sanctions review since Mr Annan struck his accord with Iraq guaranteeing access to all suspected weapons sites.

Faced with critical reports, and in spite of divisions within the Council over Iraq, no Council member, however, was expected to endorse lifting the embargo, imposed after Baghdad invaded Kuwait in August, 1990.

Among the five permanent Council members, Russia, France and China are pressing for a softer line towards Iraq. Following a favourable report from the IAEA earlier this month, Moscow has proposed closing the nuclear file. The US and Britain rule out its closure, saying that outstanding questions remain.

Ahead of yesterday's Council meeting, Bill Richardson, US ambassador to the UN, said he would veto any move to lift the embargo. The decision was to be based on consensus with a formal vote.

Diplomats said yesterday Mr Annan's accord had won access to suspected weapons sites, including the eight presidential sites previously declared off-limits by Baghdad, but that Iraq had still failed to co-operate in the provision of information on their weapons programmes as required by Council resolutions.

Addressing the Council yesterday Mr Butler refuted an Iraqi letter which diplomats said sought to undermine the UN inspection process. Tariq Aziz, Iraqi deputy prime minister, last week sharply criticised Mr Butler's report, saying it "represents a flagrant model of lack of objectivity and fairness, denying and distorting the facts".

To win the lifting of sanctions, the UN must certify a clean bill of health for Iraq, saying it had dismantled all banned weapons.

NEWS DIGEST

SOUTH AFRICA POLITICS

Mandela plea to keep race out of election

Flanked by political rivals, President Nelson Mandela of South Africa yesterday called on politicians not to stir up racial hatred in the run-up to next year's general election and acknowledged opposition complaints about the high level of crime in the country since his African National Congress came to power in 1994. Political parties, Mr Mandela said in a speech to mark Freedom Day – the anniversary of that first all-race election four years ago that brought an end to apartheid – should take care, in the cut and thrust of the coming election campaign, not to stir up baser emotions "which were created by our divisive past and which are yet to fully disappear from our society".

With Mangosuthu Buthelezi, the Zulu leader and home affairs minister, on one side and Gerald Morkel, the National party's incoming Western Cape premier, on the other, Mr Mandela made his speech from the same balcony in Cape Town where he addressed cheering crowds after his release from jail in 1990. **Victor Mallet, Johannesburg**

ISRAELI ECONOMY

Interest rate cut 0.3 points

The Bank of Israel said yesterday it would cut its key lending rate in May by 0.3 percentage points to 11.9 per cent, in response to falling inflation. The interest rate has fallen 1.5 points since February, after the inflation rate dropped to 7 per cent in 1997, the lowest in 28 years. The central bank said it must maintain cautious monetary policy to achieve long-term price stability. Amid declining inflation, however, gross domestic product growth slowed from 4.5 per cent in 1996 to 1.9 per cent last year. Preliminary indicators for February and March released yesterday by the Central Bureau of Statistics were mixed. The data pointed to overall annual growth of 3 per cent. But the bureau said certain sectors, such as tourism which accounts for about 3 per cent of GDP, continued to decline. Unemployment has climbed from 6.7 per cent in mid-1996 to 8.3 per cent in February. **Avi Machlis, Jerusalem**

FRENCH DIPLOMACY

Chirac invitation to Syria

France's President Jacques Chirac has invited Syria's President Hafez al-Assad to visit France in July. The invitation to the 70-year-old Syrian leader was reported by Agence France Presse, the French news agency, but was not directly confirmed by the the Elysée presidential palace. Officials however indicated discussions on the visit were taking place but no firm date had been agreed. The French president is anxious to play an active role in the Middle East peace process and offset the dominance of Washington which is seen by the Arab states as too pro-Israeli. Mr Chirac is due to visit Lebanon at the end of May. One issue will be the prospects for an Israeli withdrawal, a move needing the endorsement of Mr Assad. Mr Assad has rarely left Syria in recent years and then only to visit Cairo or Tehran. **Robert Graham, Paris**

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ASIA-PACIFIC

Asia crisis hits ADB lending

By Peter Montagnon, Asia Editor, in Geneva

The Asian Development Bank expects to raise up to $9.5bn in international capital markets this year and reduce its contribution to Asia's poorest countries as it assembles resources to finance Thailand, Indonesia and South Korea, the three countries worst hit by the region's economic crisis, officials said.

To mitigate the impact of sharply higher borrowing on its balance sheet, the bank is recommending to its board that no profits should be transferred this year to its Asian Development Fund, which provides subsidised loans to the region's poorest countries, said Pierre Uhel, vice-president. Last year the bank transferred $230m from accumulated profits to the development fund.

Bank officials acknowledged the move may prove controversial. Poorer member countries are likely to argue they are being forced to pay for the profligacy of South Korea, which took $4bn in loans from the ADB last year – or 43 per cent of the bank's total lending – as part of its International Monetary Fund rescue package.

Before the crisis South Korea considered itself a developed country and had not borrowed from the ADB since 1988, but last year it shot back to pre-eminence as the ADB's largest single borrower. Fuelling the controversy over its pre-emption of resources is likely to be a revelation in the ADB's annual report that South Korea is also easily the largest beneficiary of contracts awarded for projects financed by the bank.

Last year South Korea received contracts for ADB projects estimated at $2.08bn, or 35 per cent of the total value let by the bank. The amount is almost three times the amount of $708m won by China, the next largest beneficiary.

But while the impact of the regional crisis is likely to dominate discussions as finance ministers and central bankers gather in Geneva for the formal opening of the ADB's annual meeting tomorrow, the effect on the bank is already clear. Borrowings undertaken by the bank last year jumped from under $1bn to $5.55bn, *including $3.32bn in bridging finance to meet loan commitments under IMF rescue schemes.* Lending soared by nearly $4bn to $9.4bn.

With more large loans in the pipeline, including a $1.4bn financial sector loan to Indonesia, lending will again be high this year at between $6bn and $7bn, Mr Uhel said. Emergency rescue lending had risen sharply, but normal project lending demand was soft as many countries in Asia were finding it hard to raise complementary funds from other sources to complete projects.

Mr Uhel said the $9.5bn figure was a maximum *rather than a target.* "We have some leeway. We aren't forced to borrow this amount but we will go that far depending on market conditions."

Hyundai says mass sackings necessary

By John Burton in Seoul

Hyundai Motor, South Korea's largest carmaker, will press ahead with plans to sack as much as a fifth of its workforce despite fears that this could provoke national labour unrest.

Chung Mong-gyu, Hyundai Motor's chairman, yesterday said mass redundancies were necessary for Hyundai to report a 1998 profit as domestic car sales have plunged 40 per cent due to Korea's economic crisis. He expected domestic sales would not recover for another four or five years.

"Every Korean car company has to cut its workforce. Somebody has to start the process," said Mr Chung in acknowledging the action would be controversial.

Analysts believe that mass redundancies at Hyundai would be the signal for widespread industrial action as it would be the first time that a large number of unionised industrial workers would be sacked and set a precedent for other conglomerates to take similar steps.

Korea's unemployment rate climbed to 6.5 per cent in March, the highest in 12 years, with the jobless concentrated among recent graduates and other young workers in mainly non-unionised small businesses.

"We are heading for a hot summer with the workers taking to the streets. They have no extensive social safety net and feel that they are unfairly taking the brunt of corporate restructuring," said Henry Morris of Industrial Research and Consultancy in Seoul.

Trade union militancy could deepen Korea's economic crisis by discouraging foreign investments needed to revitalise the nation's debt-heavy industrial sector.

Hyundai workers are affiliated with the dissident Korean Confederation of Trade Unions, which represents more than 500,000 workers in the car, electronics and shipbuilding industries. Its new leader, Lee Kap-yong, is a former head of the Hyundai group unions. He has vowed to resist a collective trade union agreement made with the government in February to end lifetime employment guarantees in return for improved social benefits.

With capacity utilisation at Hyundai's car plants falling to 40 per cent, the company has put nearly 15,000 workers on paid leave at 70 per cent of their regular salary. Mr Chung expected "strong resistance" to job cuts but predicted Hyundai would succeed in reducing its workforce of 46,000.

NEWS DIGEST

NUCLEAR POWER STATIONS

Shanghai plans supply of generating equipment

Shanghai plans to establish a nuclear power group to build generating equipment in China's largest city, underlining the country's aim to supply more locally-made machinery for a growing number of nuclear power stations.

China has laid out plans to multiply the small number of nuclear power plants in the country, as part of its efforts to increase alternative energy sources and reduce reliance on coal-fired power. Nuclear power accounts for roughly 1 per cent of total electric power output, but Beijing has set a target of increasing that level to 4 per cent by early next century.

The new company, announced yesterday in one of Shanghai's leading state-owned newspapers, will be forged out of existing businesses and nuclear research facilities. The group aims to have annual sales of equipment worth Yn5bn ($603m) by 2010, according to the Wenhuibao. The enterprises forming the new business will be the Shanghai Electric Group, the Shanghai Nuclear Project Research Centre and the East China Electric Research Centre. **James Harding, Shanghai**

INDONESIAN PROTESTS

Students clash with police

Police again fired rubber bullets and tear gas at protesting students in two cities yesterday, the latest in a spate of clashes that highlight the rising political tension in Indonesia.

At least one police officer and four student were hurt at Mataram University, on the island of Lombok, when students tried to fight their way off campus and police responded by shooting rubber bullets. At two universities in Medan, Sumatra, police fired tear gas today at students and other protesters who tried to join them. Students, in turn, threw stones at police.

Police have been mostly tolerant of isolated student demonstrations on dozens of campuses but intervened when students tried to move into the streets or join other groups. In three of the past four days fighting has erupted as students grow ever more numerous and assertive in urging other groups in society to join them. **Sander Thoenes, Jakarta**

DOCKERS DISPUTE

Reinstatement freeze extended

Australia's waterfront dispute remained unresolved yesterday following a High Court decision to extend until today its freeze on a lower court order for Patrick Stevedores, the country's second largest stevedoring company, to reinstate 1,400 dockers it dismissed earlier this month. Gerard Brennan, a High Court judge, said the stay would continue until the conclusion expected today of a hearing into an appeal by Patrick against the reinstatement order.

In a separate development, results of a national poll announced yesterday showed the first significant shift in public opinion against the government for its tough stance on waterfront reform. The shift could inflict further political damage on the conservative coalition of John Howard, the prime minister, which has publicly supported Patrick's moves and planned to make further labour reform a feature of its forthcoming election campaign. **Gwen Robinson, Sydney**

OBITUARY: NGUYEN VAN LINH

Former Communist chief dies

Nguyen Van Linh, who launched Vietnam's economic reforms as Communist party general secretary, died yesterday. He was 82. No cause of death was given other than a statement that Linh had suffered from a long, serious illness.

Linh, a lifelong Communist revolutionary, revitalised Vietnam's economy with free markets and foreign investment after decades of rigid state control. But he shook up a party congress in June 1996 when he gave a speech suggesting the party was corrupted at the top and accusing foreigners of seeking to exploit Vietnam and topple socialism.

Linh also eased Vietnam's international isolation by ending the decade-long occupation of Cambodia, normalising relations with China and making overtures to the US. He also brought unprecedented openness by writing a newspaper column, "Things That Must Be Done Immediately", that condemned official corruption. **AP, Hanoi**

Japan package fails to impress

By Paul Abrahams in Tokyo and Guy de Jonquières in Paris

Investors reacted yesterday with disappointment to last week's Y16,000bn ($122bn) Japanese economic package while in Paris western governments and the International Monetary Fund gave the initiative a cool welcome. Michel Camdessus, IMF managing director, said the package "certainly has the potential" to arrest the decline in Japan's economy and boost its recovery in the second half of this year and early next year.

He was speaking after a meeting in Paris of ministers of the 29-member Organisation for Economic Co-operation and Development, at which Japan appealed to other governments publicly to back the stimulus plan. "Because it is a matter of confidence, a positive evaluation by yourselves and the international community is essential," Koji Omi, Economic Planning Agency minister, said.

In Japan, the yen tumbled against the US dollar, after Kazuo Ueda, a member of the Bank of Japan's policy board, said a cut in the official discount rate, presently at a record low of 0.5 per cent, was possible. He suggested that it should only be done if the economy fell into a "very, very serious recession", adding that a further depreciation of the yen against the dollar by 5 per cent to 10 per cent would not pose a serious economic risk.

In contrast, Eisuke Sakakibara, the country's top financial diplomat, insisted that bullish sentiment for the dollar was beginning to wane and that the Japanese authorities were looking for the right time to intervene "with the wind" to boost the yen.

However, despite Mr Sakakibara's comments, the yen dropped sharply against the dollar, dropping about Y2.5 to near Y133. Analysts said the currency could soon be challenging the Y135 mark. It also struggled against the D-Mark, dropping to Y73.80 in Tokyo, a four-month low, and threatening its December-level of Y74.13.

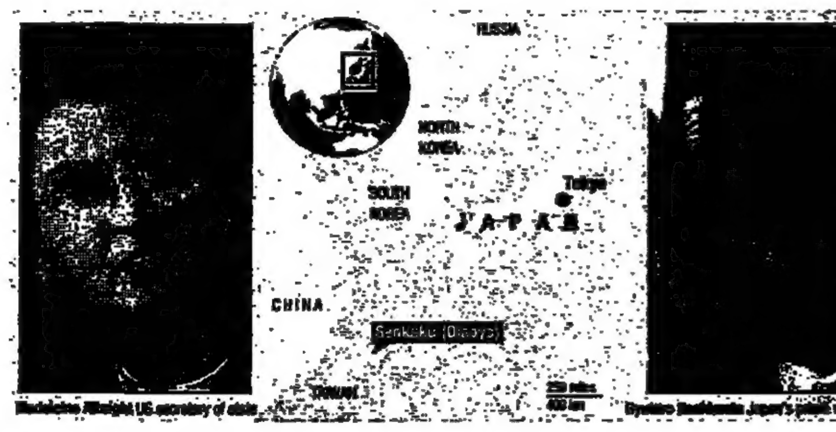
The yen was also dragged down by concerns about Japanese export performance in the first 10 days of April. Strong export growth has been one of the few props for the Japanese economy. However, exports fell 5.4 per cent during the 10 days, compared with same period last year. Imports dropped 13 per cent year on year, reflecting the weakness of the economy.

Disappointment that last week's package did not include permanent tax cuts also hit the equity markets. The benchmark Nikkei 225 index fell 2.2 per cent to 15,649.

See World Stock Markets

Tokyo strives to fulfil pledge on defence

By Michiyo Nakamoto in Tokyo



Madeleine Albright: US secretary of state

Ryutaro Hashimoto: Japan's prime minister

Japan will today show that it is serious about living up to its new security role in the region. The ruling Liberal Democratic party will submit legislation to the Diet, or parliamewnt, which, if passed, would enable Tokyo to honour its bilateral security arrangement with the US: This is the linchpin of regional security arrangements and passage of the enabling legislation will partly offset US criticism of Japan's poor management of its economy.

But the parliamentary debate, which coincides with the arrival in Tokyo today of Madeleine Albright, US secretary of state, will still provoke resistance from the Socialists, the junior coalition partner.

Prime Minister Ryutaro Hashimoto, who has come under intense international criticism for his failure to deliver on the economic front, cannot be seen once again to founder on a commitment made to Japan's most important ally.

But Japan may end up disappointing the US once again. Mr Hashimoto's position in his party is weak and his approval rating is flagging with the Japanese public. Two minor members of the coalition government oppose the pact and the prime minister is simply not in a strong political position to force through unpopular legislation.

Under a landmark deal last September, Japan pledged greater support to US forces in emergency situations in the region. That includes greater use by US forces of military bases in Japan, as well as civilian airports and ports, Japanese logistical support in search and rescue operations and Japanese participation in naval blockades and mine-sweeping operations in the event of a regional crisis.

Japan's pacifist constitution prohibits Japan from acting collectively with the US in the defence of any third country. Under this US-Japan security alliance, co-operation was permitted only if Japan acted in self-defence. This arrangement was increasingly seen by the US as unsustainable. During the Gulf war, Japan came under tremendous criticism in the US for its "cheque-book diplomacy" of contributing money but not personnel to the western effort in spite of its dependence on the Middle East for its oil supplies.

The problem for the LDP is that the two minor parties in the coalition, the Social Democratic party and the New Party Sakigake, are opposed to its draft of the legislation to implement the new security guidelines. The socialists in particular, have long opposed the US-Japan security alliance and are opposed to any expansion of Japan's military role. If the LDP tries to railroad the necessary legislation through, it could trigger a collapse of the fragile coalition.

"There needs to be a debate on the issue but the problem is that the debate on the Japanese economy has overshadowed discussions on the new security arrangement," says Kazuya Sakamoto, professor of law at Osaka University.

Japan's Asian neighbours, particularly China, have reacted nervously to the new guidelines, which have aroused concern of a revival of Japanese military power. China, in particular, with which Japan has a territorial dispute involving several disputed South China sea islands known as Senkaku in Japan and Diaoyo in China, is outraged by the possibility that Japan might assist US military operations in the Strait of Taiwan.

Mr Hashimoto is already under pressure for another security issue involving the reduction of US military bases on Okinawa, the southern island where 75 per cent of the land used for US forces stationed in Japan is concentrated. But Mr Hashimoto's authority is diminishing. With a hostile public and party, his chances of pleasing the US on the security front after displeasing it on the economic front look slim.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1990=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1987	220.2	−131.8	−145.6	1.1541	107.8
1988	272.5	−100.2	−108.4	1.1833	100.5
1989	330.2	−89.3	−84.6	1.1017	104.9
1990	308.0	−79.3	−72.1	1.2745	100.0
1991	340.5	−53.5	−4.6	1.2391	98.5
1992	345.9	−65.2	−43.5	1.2957	96.5
1993	397.3	−96.7	−77.6	1.1705	99.5
1994	432.3	−127.0	−112.6	1.1857	97.6
1995	452.3	−122.8	−99.9	1.2928	91.8
1996	499.0	−135.9	−118.3	1.2526	96.6
1997	609.0	−160.8	−147.2	1.1309	104.4
1st qtr.1997	140.5	−38.6	−34.1	1.1713	102.4
2nd qtr.1997	152.6	−36.7	−33.2	1.1388	103.8
3rd qtr.1997	159.2	−44.1	−39.8	1.0893	105.1
4th qtr.1997	157.3	−41.3	−40.6	1.1245	106.4
April 1997	50.7	−12.1	n.a.	1.1401	105.5
May	50.5	−12.7	n.a.	1.1444	103.3
June	51.4	−11.9	n.a.	1.1312	102.5
July	52.5	−14.2	n.a.	1.1011	103.7
August	54.5	−14.3	n.a.	1.0695	106.0
September	52.3	−15.6	n.a.	1.0974	105.7
October	53.1	−13.6	n.a.	1.1191	104.9
November	50.9	−13.0	n.a.	1.1421	105.8
December	53.3	−14.7	n.a.	1.1122	108.3
January 1998	52.7	−15.8	n.a.	1.0873	109.5
February	51.8	−16.1	n.a.	1.0892	108.4
March			n.a.	1.0857	109.1

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	194.7	83.7	75.5	166.58	104.7
1988	218.7	79.8	67.0	151.51	115.9
1989	245.5	70.6	53.4	151.87	110.8
1990	220.0	50.0	28.5	183.94	99.9
1991	249.4	77.7	57.4	166.44	108.4
1992	256.6	96.2	86.7	164.05	113.6
1993	300.3	118.6	112.4	130.31	136.5
1994	325.0	121.7	110.5	120.99	147.0
1995	331.1	101.3	85.8	121.43	154.4
1996	319.8	66.6	52.6	136.24	134.0
1997	382.9	88.9	83.1	136.84	126.1
1st qtr.1997	83.3	14.7	13.1	141.82	123.9
2nd qtr.1997	94.2	24.9	23.2	136.15	127.1
3rd qtr.1997	95.3	24.6	22.4	128.47	131.1
4th qtr.1997	89.6	25.1	24.8	140.91	122.2
April 1997	30.1	7.0	6.8	143.23	120.9
May	32.9	10.2	9.1	135.92	127.5
June	31.2	7.8	7.3	129.31	133.1
July	32.3	7.8	7.2	126.84	133.5
August	32.7	9.9	9.5	125.99	132.2
September	30.3	7.0	5.8	132.58	127.8
October	31.4	9.0	9.1	135.36	126.6
November	29.2	8.4	8.1	143.21	121.4
December	29.2	7.7	7.6	144.17	118.7
January 1998	30.4	8.1	7.4	140.80	120.0
February	29.8	10.5	11.4	137.00	123.4
March				140.17	120.5

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	*254.4*	*56.8*	*40.6*	*2.0710*	*97.3*
1988	*272.6*	*61.4*	*42.4*	*2.0739*	*96.6*
1989	*310.1*	*65.1*	*51.5*	*2.0681*	*95.9*
1990	324.6	51.8	38.4	2.0537	100.0
1991	327.6	11.1	−14.4	2.0480	99.2
1992	330.9	16.8	−14.8	2.0187	102.1
1993	325.2	30.6	−12.0	1.9337	106.1
1994	360.2	37.5	−17.1	1.9198	106.4
1995	405.0	47.1	−17.5	1.8509	111.9
1996	418.6	52.0	−11.0	1.8844	108.9
1997	453.6	62.0	−0.9	1.9584	103.9
1st qtr.1997	107.8	12.9	−5.1	1.9415	105.6
2nd qtr.1997	111.7	15.3	2.4	1.9511	104.4
3rd qtr.1997	117.6	17.9	−2.1	1.9672	102.3
4th qtr.1997	116.4	15.8	3.8	1.9740	103.3
April 1997	35.7	5.0	1.4	1.9509	104.9
May	37.7	4.7	−1.4	1.9491	104.6
June	38.2	5.8	2.4	1.9534	103.6
July	38.7	5.6	−0.7	1.9722	102.1
August	38.2	4.4	−3.3	1.9675	101.9
September	40.7	7.9	1.9	1.9618	103.0
October	38.7	4.6	−2.4	1.9665	103.3
November	39.0	5.2	0.7	1.9784	103.5
December	38.7	6.1	5.5	1.9761	103.2
January 1998	40.4	4.1	−6.8	1.9749	102.9
February	40.3	6.2	0.1	1.9746	102.7
March				1.9835	102.5

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch. rate
1987	126.3	−4.6	−3.7	6.9265	98.9
1988	141.9	−4.7	−3.4	7.0354	98.9
1989	162.9	−6.3	−3.6	7.0169	96.0
1990	170.1	−7.2	−7.2	6.9202	100.0
1991	175.4	−4.2	−4.8	6.9643	98.3
1992	182.5	4.5	2.9	6.8420	101.5
1993	179.6	13.3	8.0	6.6281	106.0
1994	198.9	12.6	5.4	6.5659	106.1
1995	219.7	10.4	8.4	6.4480	109.2
1996	230.2	13.8	16.4	6.4088	109.1
1997	255.4	27.2	35.1	6.5925	105.6
1st qtr.1997	59.4	4.6	6.9	6.5517	106.8
2nd qtr.1997	62.8	7.5	10.1	6.5786	105.0
3rd qtr.1997	68.2	7.6	8.4	6.6261	104.2
4th qtr.1997	66.9	7.5	9.8	6.6134	105.5
April 1997	20.9	2.3	3.6	6.5715	106.3
May	20.8	2.5	3.7	6.5725	106.0
June	21.0	2.8	2.9	6.5923	105.1
July	22.1	3.2	4.1	6.6534	103.8
August	21.6	1.6	1.5	6.6309	103.8
September	22.6	2.8	2.8	6.5940	104.9
October	23.0	3.0	4.9	6.5939	105.5
November	21.5	1.9	2.0	6.6246	105.8
December	22.4	2.6	2.8	6.6219	105.5
January 1998	22.3	2.5	2.7	6.6137	105.2
February	22.2	2.1		6.6199	105.0
March				6.6493	104.8

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	101.0	−7.7	−1.9	1494.3	100.9
1988	108.3	−8.8	−5.4	1536.8	97.8
1989	127.8	−11.3	−10.7	1509.2	98.5
1990	133.6	−9.3	−12.9	1523.2	100.0
1991	137.0	−10.5	−19.2	1531.3	98.6
1992	137.9	−8.0	−22.6	1591.5	95.5
1993	144.9	18.1	8.7	1836.7	80.4
1994	161.4	18.8	12.0	1908.6	75.9
1995	181.0	21.6	20.7	2106.4	69.3
1996	199.2	35.4	32.7	1932.1	75.7
1997	209.2	27.2	31.8	1924.0	76.3
1st qtr.1997	47.0	5.1	7.5	1917.8	76.9
2nd qtr.1997	54.0	6.8	6.2	1924.6	76.2
3rd qtr.1997	52.5	8.8	10.6	1918.8	76.0
4th qtr.1997	55.6	6.5	7.5	1934.6	76.1
April 1997	17.8	2.1	2.2	1931.6	76.2
May	18.2	2.5	2.1	1925.6	76.2
June	18.1	2.2	2.0	1916.6	76.3
July	21.5	5.8	7.2	1920.1	76.0
August	12.8	2.6	2.2	1921.9	75.8
September	18.2	0.6	1.2	1914.6	76.2
October	20.6	3.1	3.4	1925.4	76.2
November	17.9	2.0	2.4	1938.4	76.2
December	17.2	1.4	1.7	1939.8	75.9
January 1998	14.4	0.0	0.1	1943.7	75.4
February				1946.7	75.1
March				1953.3	75.2

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	112.3	−16.4	−6.8	0.7047	89.4
1988	120.9	−32.3	−24.8	0.6643	105.4
1989	137.0	−36.7	−33.3	0.6728	102.3
1990	142.3	−26.3	−26.2	0.7150	100.0
1991	147.7	−14.7	−11.4	0.7002	100.7
1992	145.9	−17.8	−13.8	0.7359	96.9
1993	156.0	−17.3	−13.2	0.7780	89.0
1994	174.1	−14.4	−2.1	0.7736	89.2
1995	186.9	−14.1	−4.5	0.8190	84.8
1996	208.0	−15.8	−2.3	0.8026	86.3
1997	246.4	−18.8	6.5	0.6906	100.5
1st qtr.1997	58.5	−3.8	1.8	0.7186	96.9
2nd qtr.1997	61.0	−4.5	2.4	0.6960	99.6
3rd qtr.1997	64.1	−4.2	2.0	0.6705	102.5
4th qtr.1997	63.0	−6.2	0.2	0.6772	103.0
April 1997	20.7	−1.5	n.a.	0.6997	99.5
May	19.9	−1.2	n.a.	0.7008	99.04
June	20.4	−1.7	n.a.	0.6878	100.4
July	22.4	−1.0	n.a.	0.6592	104.5
August	21.1	−1.3	n.a.	0.6670	102.5
September	20.8	−1.9	n.a.	0.6852	100.4
October	20.8	−2.0	n.a.	0.6853	101.1
November	20.3	−2.3	n.a.	0.6762	103.8
December	21.9	−1.9	n.a.	0.6701	104.4
January 1998	20.4	−1.6	n.a.	0.6648	104.8
February				0.6639	104.7
March				0.6532	106.8

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

حكذا من الأصل

FEDERAL COMMUNICATIONS KENNARD PLEDGE TO ENSURE 'NO DIGITAL DIVIDE BETWEEN HAVES AND HAVE-NOTS'

Internet access 'must be equal'

By Richard Wolffe and Nancy Dunne in Washington

The head of the US Federal Communications Commission yesterday said he was determined to ensure that deprived communities have the same access to digital and internet services as wealthy areas.

William Kennard, chairman of the FCC, said new infrastructure in advanced telecommunications – which needed to serve all parts of the US – would be built "over the next several years".

Speaking to a meeting of industry leaders in Washington, he said he wanted to work with the private sector to ensure there was no "digital divide between the haves and have-nots".

"I need your help in making sure that new advanced services can become pipelines of opportunity not just for the affluent areas, but also for rural and inner-city America," he said.

However, Mr Kennard said he would leave it to the free market to decide which part of the industry – cable, wireless or wireline technology – won the battle to establish broadband, high-speed services for internet and data communications.

But he had no objection to telephone companies gaining an advantage over their rivals by using their local networks – as long as they did not prevent others from gaining access to any "essential facility".

To promote new services, Mr Kennard proposed reducing regulation on new technologies. He pledged to investigate how companies could "experiment" with new services without seeking pre-approval from regulators – at least until the service was ready to be sold as a commercial offering.

Mr Kennard's comments come as Congress has raised concerns about the future of rural telecommunications companies, which rely on financial support under so-called "universal service" funding. The FCC is currently reforming such funding in line with 1996 legislation.

Kennard: 'Making sure that new advanced services can become pipelines of opportunity' AP

● The FCC has lifted broad regulatory restraints on Comsat Corporation, the global provider of satellite and digital networking services, it emerged yesterday.

The commission eliminated on Friday the long-standing regulatory controls over Comsat. Comsat was more tightly regulated than its competitors because of its exclusive rights to provide services to the Intelsat satellite system. This advantage has been eroded recently by new private satellite systems.

Comsat said the move deregulated services accounting for 85 to 90 per cent of its revenues. "Comsat will now be able to price its existing services more flexibly and introduce new services and products more quickly."

Caracas parties seek poll reform

By Raymond Colitt in Caracas

In an drive to boost prospects for victory and head off a shift towards independent candidates, Venezuela's mainstream parties have stepped up their campaign to reform the electoral law. Their aim is to bring forward local and regional elections from December's presidential vote.

Congress could vote to reform the law as early as this week, said Aristides Hospedales, secretary-general of the social democratic AD party, the country's largest.

Leaders of AD and the social Christian Copei party met the head of the electoral council last week, arguing that the newly elected body was ill-prepared to carry out elections for several thousand public officials on December 6. Every 15 years presidential elections coincide with local and regional elections.

Behind the rhetoric over the problems of a single election round, traditional parties are worried about the strong independent presidential candidates Hugo Chávez, the former coup leader, and Irene Sáez, the ex-beauty queen and current mayor of a Caracas district.

"They fear supporters of independent presidential candidates may also vote against the established parties at a regional and local level," said one analyst. The electoral council was created last year to guarantee more autonomy from party influences. Yet appointments were delayed over a drawn-out power struggle in congress.

Nearly all parties would benefit by separating national from local and regional elections. AD, which boasts an efficient party machinery throughout the country, still lacks a promising presidential candidate. Copei is still struggling to win over Ms Sáez as its candidate.

FASB may outlaw pooling of interest

By Daniel Bögler and William Lewis in New York

The top US accounting watchdog is considering outlawing "pooling of interest" rules, the accounting treatment used for most of the recent, large all-share mergers.

The US Financial Accounting Standards Board is also thinking about overhauling the treatment of goodwill, the premium paid over and above a company's tangible assets.

The new guidelines would form part of an ambitious FASB attempt to overhaul its approach to mergers and acquisitions (M&A) and to move to a single method of accounting for business combinations.

Currently, US companies can account for an acquisition either as a purchase, or, if they satisfy certain conditions, as a pooling. The advantage of the latter is that it is usually tax-free and does not create any goodwill, which has to be amortised over subsequent years and therefore penalises earnings growth.

But both the FASB and the Securities and Exchange Commission have become concerned that companies are stretching the rules to dress up acquisitions as mergers in order to account for them as poolings. Poolings have risen from 2 per cent of all US M&A transactions in 1992 to 31 per cent so far in 1998, according to figures compiled by Securities Data Company.

Tim Lucas, director of research and technical activities at the FASB, said: "Not allowing poolings is one possibility. If there was only one approach to business combinations that would solve quite a few problems."

A less draconian alternative would be to tighten the rules under which poolings are allowed. But Mr Lucas pointed out that businesses already have to meet 12 conditions to qualify for pooling, and he doubted whether further hurdles would have the desired effect: "Companies and their lawyers are inventive. My suspicion is that any test we devise will come under pressure."

At the same time, the FASB is weighing further changes which would allow companies to capitalise goodwill. But instead of amortising it as at present, they could maintain its balance sheet value and periodically test it for impairment. This would avoid depressing earnings and is similar to rules about to be adopted in the UK.

A move to outlaw pooling would undoubtedly upset US industry, according to David Kaplan, a Price Waterhouse partner and its associate national director for accounting services. "Companies like poolings," he said: "and many structure their business affairs in such a way as to be able to do poolings. The goodwill changes might mitigate that a hit."

Mr Lucas emphasised that FASB had not taken any firm decisions yet. The watchdog is hoping to produce a paper outlining its thinking by the end of the year, with the aim of moving to a new standard by 2000.

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US securities computers not ready yet for Euro

By Richard Wolffe in Washington

US securities firms have not yet prepared their computer systems for the introduction of the single European currency, the Securities Industry Association warned yesterday.

The launch of the euro next year poses a "substantial risk" that US firms involved in European markets will be unable to manage twin-track computer systems in both the euro and existing currencies. An SIA study of the euro's impact calls on US firms to take steps to invest in new computer systems, but warns this will be complicated by the need to deal with the "year 2000 problem".

The study quotes estimates that securities firms will need to pay 20 per cent more on euro-related computer problems than the 2000 issue, which is caused by the switch in dates from two to four digits.

Everett Ehrlich, author of the report and a former Commerce Department under-secretary, said the euro would also offer US firms new markets to replace lost revenues from trading in European currencies and government debts.

Mr Ehrlich said US firms would be in a strong position to profit from the growth of the junk bond market in Europe, where high-yield issues are worth $2bn compared to $250bn in the US.

The US securities industry will also be able to expand its business in securitisations of household assets, such as credit card debts, car loans and mortgages.

The SIA forecast that sterling assets will become highly attractive to US investors, as long as the UK remained outside the euro. Sterling would represent "one of the few remaining" chances for investors to diversify their portfolios, it said.

But the report warned that sterling would only enjoy a short-term boost, as London could not remain a world-class financial centre if it stayed outside the euro beyond 2003.

The SIA study comes as Congress is preparing to investigate the impact of the euro on the US economy. Members of the House banking committee will today hear testimony from a series of European economists and US financial leaders on the single currency project.

Canada confidence vote over hepatitis package

By Scott Morrison in Toronto

The Liberal government of Jean Chrétien, Canada's prime minister, faces a confidence vote today over a C$1.1bn (US$766m) compensation package for an estimated 22,000 victims who contracted hepatitis C from tainted blood provided by the nation's healthcare systems.

The opposition Reform party is arguing that the package, which only compensates those infected between 1986 and 1990, is insufficient. It has introduced a motion urging the government to compensate all victims infected with the virus by tainted blood.

The government said recently it would compensate those infected when a test for hepatitis C was available but not used by the Canadian Red Cross. But it was not responsible for those infected before the test became available in 1986. Some suggest the federal government could be liable for an extra C$3bn should an estimated 60,000 people infected prior to 1986 become eligible for compensation.

Mr Chrétien raised the stakes last week when he said the Reform party motion amounted to a vote of confidence in the government, even though opposition leaders have insisted that is not the case.

The prime minister hastily rescheduled his weekend trip to Cuba in order to return in time for today's vote. He has ordered Liberal party MPs to toe the party line, but several Liberal backbenchers have indicated they are uncomfortable with the government's position.

With the Liberal majority trimmed to 11 in last year's federal election, a handful of dissident Liberals could lead to a government defeat.

Observers are surprised the prime minister has upped the political ante on what appears to be a small issue. A loss would prove embarrassing for Mr Chrétien, but few expect him to call an election. Under parliamentary tradition, the Liberals would be expected to resign, but observers suggest they would be more likely to alter their position and hold another confidence vote tomorrow.

Mark Assad, a Liberal MP who has lobbied for hepatitis C victims for seven years, said he would vote to support the government today in the hope it would introduce an expanded compensation package.

Islands weather the storm over waste disposal for liners

The Caribbean governments' refusal to give way on their demands for a waste tax has paid off, reports Canute James

Governments of several tourism-dependent islands in the eastern Caribbean and cruise ship lines which call at their ports have resolved a protracted, bitter and potentially damaging quarrel about who should pay for the disposal of waste from ships.

The row threatened an important source of income for the islands located in the most popular region among cruise lines.

The governments of seven islands will impose a $1.50 levy on each disembarking cruise ship passenger from Friday, to finance the construction of facilities for managing waste from cruise ships. A similar levy is being imposed in less controversial circumstances on land-based tourists.

The governments contend that the levy is necessary if they are to gain access to money from the World Bank to fund the waste management facility.

However, the cruise lines which call at Caribbean ports had objected to the levy, saying it was not necessary, and that it was in addition to a tax ranging from $3 to $15 already being paid by passengers on ships which call at Caribbean ports. One line, Carnival, had threatened to cease calls at Grenada if the eastern Caribbean governments went ahead with the extra levy.

"We are seeking a partnership with the cruise ship industry and we are not interested in hostility," said Sir James Mitchell, prime minister of St Vincent. "Our islands have signed international conventions against the dumping of waste at sea. The World Bank is insisting on this charge being levied on the cruise ships and has said we will get no funds unless the levy is implemented."

The cruise lines were persuaded by the World Bank to drop their objection to the levy. "The more information they got on the issue the more they realised that the countries are united on this," said a senior official of the Bank.

"The Bank explained the rationale for the levy. It is not targeting any one group. It is for everybody." The islands' collection of the levy was a condition for a $40m World Bank loan for the construction of waste disposal systems in the region, according to government officials.

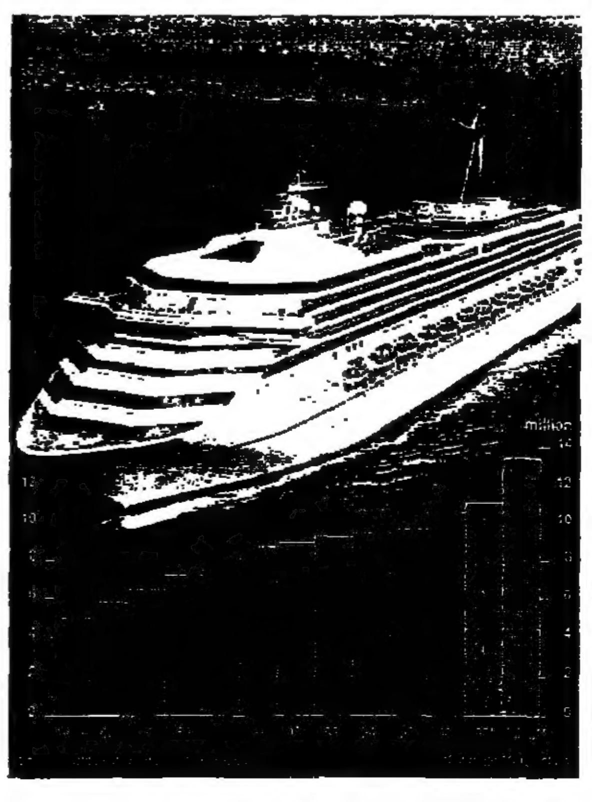
Sir James and his colleagues were convinced that the lines would eventually have paid the levy, as they would not easily have abandoned the Caribbean region.

"Seventy five per cent of the world's cruise business is done in the Caribbean Basin, including Mexico, Venezuela, Florida and the islands. We are the only part of the world where the cruise ship industry can operate all year."

Cruise ship tourism is big business for the lines and the governments in the archipelago. Between 1986 and 1996, the volume of cruise passengers visiting the Caribbean increased from 5m to 10.6m.

The eastern Caribbean islands attracted 41 per cent of these. The Caribbean Tourism Organisation (CTO) forecasts that the volume of cruise ship tourists to the region will reach 13.4m by 2000. Expenditure by cruise passengers in Caribbean destinations in 1996 totalled $1.2bn, according to the CTO.

In an effort to earn more from cruise tourism, and to cater to the larger ships being used by cruise lines, Antigua, Dominica, Grenada, St Kitts, St Lucia and St Vincent are spending about $40m to construct and improve port facilities.



The cruise ship lines had originally argued that the levy was not needed because there was no problem with the disposal of waste by ships in the Caribbean. Ships already had facilities to handle waste, and the levy was "an undesirable additional tax".

However, hoteliers supported the governments. Cruise ship lines should become full partners in maintaining the Caribbean cruise industry, said Atherton Martin, president of the Dominica Hotel and Tourism Association.

"If they refuse, we should be bold enough to tell them that if they are not willing to pay to help the environment in the Caribbean, which is the most important cruise destination in the world, they should find somewhere else to go."

The islands' governments want the cruise industry to play a significant role in tourism development, said Kenny Anthony, prime minister of St Lucia.

"I think that now that we have got over this hiccup that the partnership that we are forging will deepen, and that they will better understand that these islands are firm on this matter."

EUROPEAN AIRCRAFT INDUSTRY PARTNERSHIP DISSOLVED AFTER DISPUTE OVER 70-SEATER JET

Air regional aircraft venture collapses

By Michael Skapinker, Aerospace Correspondent

A three year-long attempt to produce a powerful European regional aircraft company collapsed yesterday when Aero International Regional (Air) announced that it was being dissolved.

When Air, a partnership between British Aerospace, Aerospatiale of France and Alenia of Italy, was set up in 1995, it was hailed as "a great day for the European aerospace industry". However, Air was plagued by disagreements between BAe and the other two companies over whether to build a new 70-seat jet.

The French and Italians will continue to co-operate through ATR, their joint venture. But BAe will now go its own way, although all three will continue to share accommodation in Toulouse and Washington.

The collapse comes as the European aerospace industry struggles to consolidate to confront large North American companies such as Boeing and Lockheed Martin. Aerospatiale said yesterday that it would look for new European partners for ATR, but there appear to be few candidates. Saab has been linked with BAe, which is expected to take a minority stake in the Swedish company.

Daimler-Benz Aerospace (Dasa) of Germany sold Dornier, its regional aircraft subsidiary to Fairchild Aircraft of the US in 1996. Dasa also suffered from the collapse in the same year of Fokker, the Dutch aircraft maker in which it had a majority stake. Dasa said yesterday: "We are not a partner for the regional aircraft business of ATR."

Air was initially set up for the three companies to pool their marketing and customer service, but they said at the time that they hoped to manufacture regional aircraft jointly too. They said they needed to merge their operations because there were 17 companies manufacturing regional aircraft worldwide.

However, plans to expand Air's operations never made progress. "This is not so much a divorce as a marriage which was never consummated," one European aerospace manager said yesterday.

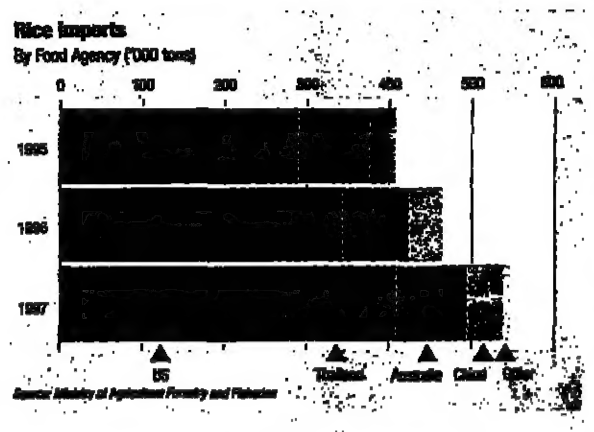
The differences focused over plans to manufacture new regional jets. Air talked to China about producing a new 100-seat jet.

However, the Chinese made it clear that they would prefer this project to be managed by Airbus Industrie, Air's longer-established Toulouse neighbour, which is owned by BAe, Aerospatiale, Dasa and Casa of Spain.

Air then turned its attention to the idea of manufacturing a 70-seat jet, but BAe said it did not think the project was viable. The UK company is understood to have concluded that, given its other priorities, which included helping to turn Airbus into a limited company, it could not afford to devote money and management time to the 70-seater.

Japanese consumers barely get chance to acquire a taste for foreign rice

Imports continue to increase but too many factors are keeping the product off the dinner table, **Michiyo Nakamoto** writes



Japanese consumers have developed an appetite for foreign foods, with the notable exception of rice.

While Californian oranges, Canadian salmon and Danish pork line the shelves of Japanese supermarkets, when it comes to rice, consumers can find little other than Japanese brands.

Three years ago, Japan reluctantly opened its market to foreign rice in compliance with the Uruguay Round agreement reached in 1993. But very little of that rice finds its way on to Japanese dinner tables and few Japanese are likely even to be aware of its presence within Japanese borders.

After the Uruguay Round agreement, in 1995 Japan imported 4 per cent of domestic consumption in its first year of limited market opening. By the year 2000, the ratio is set to rise to 8 per cent, at which time negotiations under the World Trade Organisation are expected to set the stage for further liberalisation.

But as imports of foreign rice continue to increase, the lack of availability in stores, and therefore familiarity, means that Japanese consumers have barely had a chance to overcome their traditional bias against foreign rice, long considered inferior to domestic rice.

In the first year of opening the market to imports, the Japanese government imported 410,000 tonnes of foreign rice, mostly from the US, China, Australia and Thailand, according to the Ministry of Agriculture, Forestry and Fisheries.

Of that amount, as much as nearly 70 per cent, or 280,000 tonnes, ended up as inventory and 90,000 tonnes went towards processed foods such as *miso* (a soup paste), while just 40,000 tonnes was distributed as rice for straightforward consumption, mostly in ethnic food restaurants, according to a ministry official.

As a result of the large amount of foreign rice put aside as stock, foreign rice has come to comprise as much as 15 per cent of Japanese rice stocks, despite being only 4-5 per cent of total available volume.

Last year, imports rose to 511,000 tonnes. Combined with the 310,000 tonnes left over as inventories, Japan had 821,000 tonnes of imported rice. The bulk of that went into processed foods or was sent overseas as food aid or put into warehouses as stockpiles kept in case of emergencies. Only 30,000 tonnes was released on the market as rice for consumption as a staple food.

The agriculture ministry acknowledges that only a small amount of rice goes to supermarkets but says this is simply a result of poor market demand. "Japanese consumers prefer domestic rice," says one official.

However, the government clearly has no interest in making it easier for consumers to become more familiar with imported rice and therefore develop a taste for it.

A government-controlled import system, for example, makes it difficult for retailers to offer steady supplies, even if they wanted to.

Under the system, the Japanese government holds a tender for the high quality rice destined for sale to consumers four times a year. The tenders have generally been held every quarter but importers are not given precise information on the timing of the sales or the quantities being offered.

As a result, Daiei, a large supermarket operator, for example, has no plans to offer customers imported rice, even though it found reasonable demand for the California rice it sold at its supermarkets last December. The company says it does not know when the next auction for imported rice will take place, making it difficult to plan ahead.

At the same time, the government mark-up that is part of the system means the price of imported rice is not as attractive to consumers as it could be.

At Y1,680 ($12.8), a 5kg bag of premium California *koshihikari*, a popular type of high quality rice, may seem good value against Japanese *koshihikari* prices, which come to about Y2,480 for 5kg.

However, retail prices represent a near doubling of the purchase price as it goes through the system, a US official notes.

The problem the Japanese government faces is that while it has agreed to liberalise the rice market, it faces an excess of domestic production. Japanese consumers have been eating more bread and pasta and less rice.

Last year, the surplus came to 3.82m tonnes. This year, it is expected to rise to 3.8m tonnes, according to government statistics.

The USA Rice Federation, which promotes US rice in Japan, is confident that high quality US rice is winning acceptance among Japanese consumers. Past experience at retailers has shown greater demand than the retailers initially expected, the federation points out.

But while foreign producers may be looking forward to further liberalisation of the Japanese market at upcoming WTO negotiations, without greater availability of foreign rice today they are unlikely to win resounding support from Japanese consumers in two years' time.

Philippines invites fighter aircraft bids

By Justin Marozzi in Manila

The Philippines yesterday took an important step towards the $8.5bn modernisation of its armed forces by selecting 14 international defence groups to bid for a contract to supply fighter aircraft and patrol vessels.

President Fidel Ramos has given top priority to the requirements of the navy, whose inadequacies were highlighted last year when a series of incursions by Chinese vessels into the disputed Spratly Islands rattled Manila.

At present, the average age of the navy's ships is 30 years.

But the Asian crisis and the collapse of the Philippine peso have forced Manila to cut government expenditures and the list of weaponry requirements, described as "extremely optimistic" by one European official, has been scaled back.

In the first five years of the 15-year programme, the navy is now planning to purchase three offshore patrol vessels, and the air force 13 multi-role fighter jets, which together will represent half the $8.5bn procurement budget passed by Congress last year.

Vosper Thornycroft of the UK, Blohm & Voss and Lurssen Werft of Germany, Spain's Bazan Nacional, France's DCN International, Tenix Defence Systems of Australia, Litton Ingalls of the US and Hyundai of South Korea will be asked to submit bids for the naval vessels.

The navy had been looking to purchase 24 patrol craft, 16 patrol boats, six offshore patrol vessels, six corvettes, three frigates, five seaplanes, nine multi-purpose helicopters, three mine warfare vessels, four transport ships and four tugboats.

The air force, whose frontline aircraft date back 30 years, will choose from Boeing and Lockheed Martin of the US, British Aerospace's new fighter jet, Israel's Kfir 2000, the Mirage 2000-5 of France and Russia's MiG 29.

European defence companies are hoping the Philippines will diversify its range of suppliers away from the US, on which it has traditionally relied. Last year, the navy acquired three second-hand British Peacock patrol vessels.

"The major defence exporting countries have all beaten a path to Manila because they can see there is a major requirement and there is money available under the modernisation plan," said a western defence attache.

"They are all a little wary, however, because defence contracts take time and the Philippines has no experience in procurement." There is a large number of potential pitfalls.

"The procurement process is Manila's first after the long period of dependence on the US for its external defence, and has been beset by delays.

Foreign defence officials have been helping their Philippine counterparts to draw up a framework for the tendering system.

The 14 companies selected yesterday were given 60 days to submit offers.

Fortunato Abad, defence secretary said contracts were expected to be ready in 14 months, by which time a new administration will be in office following national elections next month.

Turkish cellphone companies pay $1bn for 25-year licences

By John Barham in Ankara

Turkey's two cellular telephone companies yesterday paid the government $500m each for 25-year operating licences, replacing a revenue sharing agreement with the government that restricted revenues and competition.

Government officials said yesterday's deal was expected to reinvigorate Turkey's stalled privatisation programme. The $1bn revenue is the largest one-off receipt from Turkey's 11-year-old privatisation drive, which had earned the country about $3.5bn by end-1997.

Turkcell, majority-owned by Çukurova, a large Turkish conglomerate in partnership with Telecom Finland and Ericsson, and Telsim controlled by the Turkish Rumeli Group, will now be free to set their own charges, although they must transfer about 30 per cent of gross revenues to the treasury and Turk Telekom, the government-owned telephone company.

Under the previous revenue sharing agreement, both companies had to transfer two-thirds of their revenues to Turk Telekom. The two companies have been operating GSM networks since 1994 under a special government permit.

The companies now promise to introduce more competitive tariffs and services, a practice that was limited under their agreement with Turk Telekom. Analysts expect demand for mobile telephones to continue growing rapidly. Global Securities, a big Istanbul brokerage, says Turkey now has 1.8m mobile telephone subscribers, 78 per cent of whom are clients of Turkcell.

It says Turkcell alone expects to have signed on 806,000 new subscribers by the end of the year, pushing 1998 revenues to $450m from $160m in 1997.

Turkcell used a $575m syndicated loan led by Bankers Trust, the New York-based bank, to finance its fee payment and provide working capital. Bankers Trust is also leading a $300m high-yield bond issue in the US for Turkcell.

Yesterday's ceremony fuelled speculation that the cash-strapped government may open bidding for a third mobile telephone licence.

However, Necdet Menzir, the transport minister who is responsible for the telecommunications industry, said the government had made no decision on awarding a new licence.

Legal wrangling delayed approval of the two companies' operating licences, for over four years.

Under Turkish law the administrative courts must approve contracts for public services.

This court is widely considered hostile to private involvement in the public sector. The signing of the agreements was also delayed for a month because the two operators failed to provide the transfer fee.

The government now plans to push ahead with the privatisation of Turk Telekom. It decided in 1994 to sell 34 per cent of the company to private investors both local and foreign, and transfer a further 15 per cent to the postal services and employees.

However, legal challenges by privatisation opponents repeatedly held up progress.

The government awarded a consortium led by Goldman Sachs, the New York investment bank, the mandate to prepare Turk Telekom for sale and hopes to raise $3bn from the sale of the company this year.

However, bankers believe the government may be unable to proceed with such a large and controversial privatisation before it hands over to a caretaker administration in October ahead of general elections scheduled for next March.

● Turkey has scrapped rules forbidding yachts and cruise ships that have docked at Greek Cypriot ports from using Turkish harbours, the Anatolian news agency reported yesterday.

"It is instructed that yachts and passenger ships arriving from Greek Cypriot ports be allowed entry," the agency quoted a directive from the Undersecretariat of Maritime Affairs as saying. The ban had been in force for several years.

France blocks bid for EU-US 'marketplace'

By Neil Buckley in Luxembourg

Plans for an ambitious "New Transatlantic Marketplace" (NTM), sweeping away trade barriers between the European Union and US, were dealt a blow yesterday when France blocked moves to put them on the agenda of next month's EU-US summit.

EU foreign ministers agreed that resolution of the long-running dispute over US extra-territorial legislation on Cuba, Iran and Libya was a "pre-condition" for development of transatlantic trade. Officials said an agreement might still be possible before the transatlantic summit on May 18.

Ministers were unanimous that ways of deepening transatlantic trade and economic relations were a priority for summit discussions. But yesterday's meeting named France as a continuing opponent of the New Transatlantic Marketplace initiative - brainchild of Sir Leon Brittan, EU trade commissioner - noting several other states had "specific concerns".

"We have a mandate to carry forward preparations, and look at how we can make progress on improving [EU-US] trade," said Robin Cook, UK foreign secretary. "We don't anticipate those specific discussions at the summit proceeding from the precise document on the NTM."

Pierre Moscovici, France's European affairs minister, said it was clear Sir Leon's NTM proposals could "in no way form the basis for preparations for the May summit." The so-called New Transatlantic Agenda, adopted by the EU in 1995, provided the necessary framework for continuing to develop EU-US trade.

France has consistently opposed the NTM proposals, which call for a transatlantic free trade area in services, and the sweeping away of industrial tariffs by 2010, provided other countries follow suit.

Paris fears such talks could undermine multilateral trade liberalisation, and drag in the sensitive areas of agriculture subsidies and audio-visual services, despite Sir Leon's insistence that these could be excluded.

Yesterday's compromise reflects attempts by the UK's EU presidency to balance France's opposition and the desires of many states to progress on liberalising trade links with the US. Other EU states want to avoid angering France ahead of this weekend's special summit on European monetary union, while the issue of who should be first head of the European Central Bank remains unresolved.

A spokesman for Sir Leon insisted the NTM proposals were not dead, and France was isolated in its stance. "There was clear support for a substantial new stimulus to EU-US trade. Our document was ambitious, but it's the Commission's role to be ambitious."

EU non-market tag dropped on China, Russia

By Neil Buckley

The European Union yesterday voted to drop its definition of Russia and China as "non-market economies", in a move to improve relations with the two countries and make them less vulnerable to EU anti-dumping actions.

The move came as ministers voted to impose controversial, five-year anti-dumping duties of up to 90 per cent on imports of personal fax machines from seven Asian countries.

Both Russia and China have since the 1950s been pushing the EU to remove its non-market economy label.

The label has caused particular bitterness in Moscow, and was one of the main reasons behind a highly public snub last year, when Boris Nemtsov, prime minister, cancelled a meeting with Sir Leon Brittan, the EU trade commissioner.

The removal of Russia and China from the non-market economy list reflected the "substantial advances" made by both countries towards normal market economy conditions, the EU said.

An important effect of the change is that it allows domestic price information to be used in anti-dumping investigations.

In the past, fixed prices and heavy state controls on industry, and the absence of "meaningful market signals", made such an analysis impossible.

EU calculations on whether either country was exporting goods at below-cost were instead based on prices and costs in a comparable third country.

The move to remove the label from both countries was blocked until recently by a dispute over quotas on carpet imports imposed by Russia. This was resolved by a new, comprehensive EU-Russia textile agreement earlier this month.

Imposition of anti-dumping duties on personal fax machines is likely to provoke anger from the seven countries involved – China, Japan, Malaysia, Singapore, Taiwan, South Korea and Thailand.

Duties for manufacturers which refused to co-operate with the EU inquiry range from 22.6 per cent for Thailand to 89.8 per cent for Malaysia.

The European Commission said fax machines from the countries had been exported below cost to the EU since at least 1993.

It imposed provisional six-month duties last autumn in spite of opposition from a majority of EU member states, which continued until last week.

A change of position by Luxembourg – on condition that the duties would be reviewed after two years – allowed the EU to muster a simple majority.

The scope of the duties has been narrowed since last autumn to include only machines using existing technology.

But free trade groups and Asian fax producers have warned the measures will mean price rises for EU consumers, and could still price new, higher technology machines out of the EU market.

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CHANNEL TUNNEL DEPUTY PREMIER DEMANDS TO SEE DETAILED PLANS WITHIN THREE WEEKS

Minister delivers ultimatum on rail link

By George Parker and Charles Batchelor

John Prescott, deputy prime minister and chief transport minister, yesterday warned that the high-speed Channel tunnel rail link would be delayed indefinitely unless Railtrack, the rail infrastructure group, and other companies provided a detailed rescue plan within three weeks.

The 110km route will take trains from the Channel tunnel to London and will cut 35 minutes off journey times from Paris and Brussels to the UK capital.

Mr Prescott said he was "increasingly concerned" about the progress of negotiations and was not prepared to tolerate further delay. He has already given two extensions to the London & Continental Railways consortium – promoter of the £5.4bn ($9bn) project – to allow it to come up with proposals to complete the link. "There is an increasing feeling of concern about the present negotiations," Mr Prescott told the FT. "People are waiting to see who will make the next move but they [LCR] should not think that they can come to the last minute and put pressure on me."

He has warned that LCR will be given no additional time and that he expects to see its detailed proposals by mid-May. He said the cabinet would require about two weeks to discuss the final bid, before taking a decision ahead of the revised deadline of May 29.

The deputy prime minister said he was "quite prepared to take the final political decision" if the LCR bid is not acceptable.

Officials said that would mean the cancellation of LCR's contract and the retendering of the project – probably as a public-private partnership. But such a process would delay the completion of the link well into the next century, which Mr Prescott is keen to avoid.

LCR said: "We have every confidence of meeting the deadline and of allowing the government to take its decision within the set timescale."

The consortium – which includes Richard Branson's Virgin Group; National Express, a coach and train operator; and Bechtel, a US engineering and project management group – was forced to apply for extra government funding in January, when revenues from the Eurostar cross-Channel high-speed train service fell below expectations.

Mr Prescott turned down a request from LCR for an additional £1.2bn, on top of the £1.8bn already agreed, but has acknowledged the government would have to put in an extra subsidy to complete the project.

The Treasury is reluctant to commit much additional public money. But the issue is complicated by the fact that allowing the LCR bid to collapse could cost the government £800m-£900m in writing off funds already invested and in meeting Eurostar's continuing losses.

EMI record company chairman steps down

By Alice Rawsthorn in London

Jean-François Cecillon, flamboyant chairman of EMI Records (UK), one of the UK's largest groups of record labels including such acts as the Beatles, Robbie Williams and Chumbawumba, is believed to have left the company.

EMI Group, which has been clouded by bid speculation in recent weeks and is expected next month to report a steep fall in profits for its last financial year, declined to comment on Mr Cecillon's departure.

However, it is understood that Mr Cecillon was told yesterday that his contract would not be renewed. EMI executives speculated that he would be replaced by Tony Wadsworth, head of Parlophone, one of EMI Group's most successful UK labels with Radiohead and Supergrass on its roster.

Mr Cecillon's departure comes as EMI Group, which has shed 200 jobs from its US record labels since last summer, is preparing to restructure its European interests.

Described by one EMI executive as "a love-him or loathe-him character", the French-born Mr Cecillon has become a prominent figure in the UK music industry.

However, his extrovert personality and management style are out of synch with the restrained corporate approach favoured by Ken Berry, who became president of EMI's record labels worldwide last year and has since orchestrated the US restructuring. As head of EMI Records (UK), Mr Cecillon backed a series of successful domestic acts including Eternal and *Louise*. He was also involved with EMI's highly successful effort to rekindle Beatlemania by releasing the *Anthology* series of Beatles albums.

However, Mr Cecillon came under criticism for spending heavily on marketing, and making expensive but ultimately unsuccessful signings such as that of Murray Lachlan Young, whom EMI hoped to promote as a pop star poet but dropped earlier this year.

The commercial performance of Mr Cecillon's labels has been outshone within the group by other UK subsidiaries, notably Parlophone and Virgin. Virgin has had a string of hits from the Verve, Massive Attack and Spice Girls, and signed two of 1998's most promising UK acts, Embrace and Gomez.

Mr Cecillon's contract came up for renewal as t a time when Mr Berry is at pains to change the group's image. He and the rest of the board are also anxious to shed the profligate reputation EMI acquired from its association with Jim Fifield, former president of EMI Music. Mr Fifield left EMI with a £12m ($20m) pay-off a fortnight ago after non-executive directors blocked his promotion to group chief executive. EMI has since been beset by a renewal of the takeover speculation that has haunted the group.

Adams urges Blair to reform NI police force

Financial Times Reporters in Dublin and London

Gerry Adams, the Sinn Féin president, called for movement on troop withdrawals from Northern Ireland and police reform to underpin the peace agreement when he met Tony Blair, the UK prime minister, in London yesterday.

Accompanied by Martin McGuinness, the party's chief negotiator, Mr Adams held a 90-minute meeting with the prime minister and Mo Mowlam, the chief Northern Ireland minister. Mr Adams voiced concerns about recent murders of Roman Catholics, and about the forthcoming Protestant marching season. Sinn Féin is the political wing of the Irish Republican Army.

"These issues need to be dealt with because they are injustices ... wrongs need to be righted," said Mr Adams. He later described the meeting as "positive and constructive". But Blair aides stressed that the future of the Royal Ulster Constabulary police force, seen by many Roman Catholics as a pro-unionist organisation, was not negotiable.

The meeting came as European Union foreign ministers meeting in Luxembourg indicated they were prepared to increase their financial support for the region. The EU has agreed Ecu100m for the peace and reconciliation programme in 1998 and is now in discussions about possible aid for 1999.

Sinn Féin will meet for a special congress on May 10 to discuss whether to endorse the peace agreement. Bertie Ahern, the Irish prime minister, indicated yesterday that he expected Sinn Féin to support the agreement, saying there was a "great amount" in the agreement for the party.

● Police in the Republic of Ireland said a body found on the Irish side of the border in county Louth bore the hallmarks of a paramilitary killing, although it was not yet possible to identify the victim.

NEWS DIGEST

PERSONAL INVESTMENT AUTHORITY

CU offshoot rebuked over 'Win Win' advertising

A City of London watchdog yesterday delivered an unprecedented reprimand to Advance Call, a subsidiary of Commercial Union, over potentially misleading advertising. The Personal Investment Authority said it was the first time it had taken such a step in relation to an advertisement.

The rebuke relates to advertisements for Advance Call's "Win Win" personal equity plan last year, the returns on which were based on the performance of the newly-floated Halifax bank. PIA said Advance Call had used performance data relating to Abbey National – the former mutually-owned home loans and savings institution – following its public offering eight years ago, in a way which could have led investors to think they might achieve similar returns. It said the advertisements also "gave a misleading impression that the product offered advantages over and above the benefits of direct ownership of Halifax shares".

CU said it was "disappointed" by the finding, but added: "The PIA has not found any evidence of customers being misled, only that there was the potential for them to be misled." It said only 2 per cent of customers had decided to cancel their investments and compensation had not been found necessary. **Christopher Brown-Humes, London**

PHARMACEUTICAL INDUSTRY

Drug exports top $9bn

British drug company exports reached a record £5.5bn ($9.2bn) last year – just topping the figure for 1996 which was itself a record for the industry. Last year's trade surplus for therapeutic drugs, the amount by which exports strip imports, was more than £2.3bn. In addition, drug company investment in research and development reached £2.2bn last year, another record, said the Association of the British Pharmaceutical Industry in its annual review. Research spending was equivalent to £6m every day.

Capital investment in Britain totalling more than £600m was made or committed by British, mainland European and US companies during the past year. Dr Trevor Jones, director general of the ABPI, warned that such investment should not be taken for granted. He said: "The global pharmaceutical industry is working in an environment which is getting more competitive, not less."

EU FARMING SUBSIDIES

Wet weather plea over crops

The UK government has asked the European Commission for an extension of a deadline for farmers to plant arable crops because of the recent severe wet weather. Without a delay, farmers could lose valuable subsidies, at a time when farm incomes have already fallen substantially. The Welsh Office yesterday published figures showing farm incomes in the region had fallen by 44 per cent in 1997. Hugh Richards, chairman of the National Farmers Union in Wales, said: "There have been further falls in income since this year began." Farmers in large parts of Wales, and parts of northern and eastern England have been unable to plant spring crops because the ground is saturated. However, crops attract EU arable aid payments only if planted by May 15. The agriculture ministry has written to Brussels asking for the deadline to be delayed to May 31 for farmers in affected areas. The Welsh Office forecast the total income from farming in Wales fell from £251m ($419.2m) in 1996 to £141m in 1997. Welsh farmers received £9.58m in cereal subsidies. Cereal income held up well in 1997, with the decline largely due to falling income from livestock and milk. **Maggie Urry, London**

ELECTRONIC SETTLEMENT SYSTEM

Unexpected profit for CrestCo

CrestCo, the company that operates the Crest electronic settlement system for the London securities market, is planning changes to its structure and pricing policy after making an unexpectedly large profit of £8.5m ($14.2m) in its first full year of operations. Heavy stock market trading volume, swollen by the demutualisation of four building societies and one life assurer, lifted revenues to £42m last year. Income this year remains higher than forecast. But CrestCo warned that 95 per cent of its income came from volatile sources linked to market volume, while most of its operating costs were fixed.

The company is to call an extraordinary general meeting later this year to change its articles to allow it to build up bigger cash reserves. **George Graham, London**

ANTI-NARCOTICS PROGRAMME GOVERNMENT UNVEILS PLANS TO FOCUS ON EDUCATION IN ILLEGAL SUBSTANCES FOR CHILDREN AS YOUNG AS FIVE

School pupils of all ages at risk, says 'drug tsar'

By Simon Buckby, Social Affairs Correspondent

A radical long-term strategy to tackle the growing use of illegal drugs was unveiled by the government yesterday amid controversy over its plan to focus on drug education for all schoolchildren.

The strategy is in a policy paper which follows a review of all policies related to the problem by Keith Hellawell, former chief constable of West Yorkshire police. He began work as the country's first US-style "drug tsar" (anti-drugs co-ordinator) in January.

"Children as young as five need to understand the consequences that drugs have," he said. "It's crucial that we get to the children before the drug dealers do." Almost half of all under-25s have used illegal drugs. Government figures show 8 per cent of 12-year old children, one in three 14-year olds and two in five 16-year olds have tried them at least once.

The plans for a nationwide drug education programme for all children aged 5 to 16, was attacked by Nigel de Gruchy, general secretary of NASUWT, the teachers' union. He complained that "dumping the problem on schools is a cop-out by government and society. There is little hard evidence that drugs education of this kind will achieve its purpose."

However, Jack Straw, the home secretary, whose teenage son was cautioned earlier this year for selling cannabis, said: "If schools don't spell out the facts, then for sure children will have them spelt out in the playground or on the street corner."

The total number of drug addicts notified to the Home Office rose by 17 per cent in 1996. The number of new addicts under 21 rose by 35 per cent. This explains why the government's target to reduce the number of people reporting the use of drugs concentrates on under-25s.

Mr Hellawell said he will set monthly and annual targets for reducing the number of people under 25 reporting the use of illegal drugs. There will also be targets for reducing the levels of repeat offending and increasing participation in drug treatment programmes.

He added that young people's use of legal drugs such as alcohol and tobacco is closely linked to illegal drug use and should therefore be tackled in the same educational strategy.

A symbol of the government's objective, to shift resources away from reacting to the consequences of the problem to preventing widespread misuse, is the announcement that assets seized from drug dealers will be invested in anti-drugs work.

● Four men were jailed yesterday for a total of 87 years after denying that they had conspired to supply heroin. Ozer Esat from North Cyprus, and Tan Onbasi, Arkin Izzigil and Umit Kulunkfrom London were all sentenced at a south London court. The case followed the seizure in April 1996 of 44kg of heroin worth £8m in north London.

Internet trading safeguard to be voluntary

By Alan Cane in London

Proposals for mandatory licensing of companies offering services designed to guarantee safe trading over the internet have been abandoned by the UK government in favour of a voluntary scheme.

Barbara Roche, a junior industry minister, said yesterday that the government would introduce laws to provide a framework in which trading over the internet – or e-commerce – could flourish.

It would include measures to promote the legal recognition of "electronic signatures" to guarantee the authenticity of electronic trading documents, and a voluntary licensing scheme for companies able to provide coding (encryption) to ensure the security of information passing over the internet.

Last year, UK electronics companies warned that mandatory licensing of encryption companies would prove "unworkable, unneeded and frankly unacceptable". Under yesterday's proposals, however, law enforcement agencies, having secured a warrant from the government, will be able to demand from an encryption agency the key to suspect coded messages.

According to the consultancy Datamonitor, on-line shopping was worth $111m last year with Germany and the UK together accounting for 78 per cent of the market.

● "Junk" electronic mail and "spam" – unwanted e-mail advertisements – are costing British and Irish companies £5bn ($8.35bn) a year and threaten to undermine the commercial benefits of internet communications, says a report published yesterday, Paul Taylor writes. It is based on independent research commissioned by Novell, the networking software group.

Reform looms for refuge of dukes, barons and bishops

Labour government is determined to change unelected House of Lords but is not sure what will replace it, **Liam Halligan** writes

Harold Macmillan, who was prime minister in the early 1960s, once defended the House of Lords on the grounds that it "seems to have a bar or a gentlemen's toilet within 30 yards in any direction".

Certainly, the UK parliament's dazzlingly ornate second chamber, with its unelected membership and laid-back style, is seen by many Britons as an anachronistic relic of the country's feudal past.

This is one motivation behind the plans of Tony Blair, the Labour prime minister, to reform Westminster's revising chamber, abolishing the voting rights of the hereditary peers, who make up almost two-thirds of the 1,300-strong membership. The remaining members, excluding senior churchmen, are peers only for life, appointed by one of the main political parties.

Another reason Mr Blair wants to rein in the hereditaries, lawmakers only by birthright, is that almost half of them are from the opposition Conservative party.

This fact contributed to the frustration of the last Labour government in the late 1970s, which watched helpless as the upper house used its delaying powers to frustrate chunks of legislation – with Conservatives "whipping in" numerous inactive hereditaries, known as "backwoodsmen", from the countryside to win crucial votes.

"There remains an enormous voting imbalance in this house," says Lord Richard, Labour's leader in the Lords. "The Conservatives have more than three times as many peers as us."

'Not since the 1650s has one man had the right to nominate a majority in half of parliament'

Memories of Labour's last administration, along with the observation that Lords reform is a precious area of agreement between "old Labour" leftwingers and "new Labour" modernisers, meant Mr Blair stressed his anti-hereditary policy during last year's general election.

But the government is in a quandary about what sort of second chamber it wants once the hereditaries are gone – whether elected, government-appointed, or a combination of the two.

With Downing Street focusing on welfare reform and the Northern Ireland peace settlement, the government's constitutional programme has so far been limited to bringing regional government to Scotland and Wales.

Ministers are now indicating, however, that a bill to abolish the hereditaries will be introduced this autumn – even though there is no agreement on the composition, or the law-making power, of the reformed second chamber.

The prospect of legislation puts Tony Blair on a collision course with the House of Lords – which, by convention, does not seek to impede the passing into law of a government's election promise.

Many Conservatives protest against government plans for a "stopgap" appointed second chamber, until a scheme can be agreed to make the upper house more democratically accountable.

Dr George Carey, the archbishop of Canterbury (bottom left), is one of the "lords spiritual". "Lords temporal" are either hereditary peers such as dukes or life peers such as Baroness Thatcher, the former Conservative premier pictured (right) in ermine-trimmed robes with Lord Callaghan, the last Labour prime minister before Tony Blair. With them in the Upper House is Lord Hurd (top left), who was foreign secretary in Lady Thatcher's government

"Mr Blair would enjoy astonishing powers of patronage," says Lord Cranborne, Conservative leader in the Lords, "leaving us stuck with a second chamber made up entirely of appointees."

Ministers are suspicious that Lord Cranborne, whose family has been in the Lords for generations, is trying to defend hereditaries. "I am not against reform," he says, "but not since Cromwell [Oliver Cromwell was Lord Protector – head of state – in the 1650s after the execution of King Charles I] has one man had the right to nominate a majority in half of Parliament."

But the "patronage" argument could be wielded by Conservatives to encourage peers to break with convention provoking a constitutional crisis early next year.

But whatever Conservatives may say, Mr Blair knows, despite many peers' fondness for the *status quo*, that public opinion is overwhelmingly behind the abolition of hereditaries.

As one minister puts it: "How can the Duke of Buccleuch, the largest landowner in Britain, who owes his title to the fact that one of his ancestors was the bastard son of Charles II, possibly represent the common man?"

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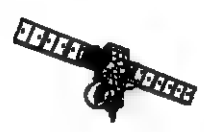
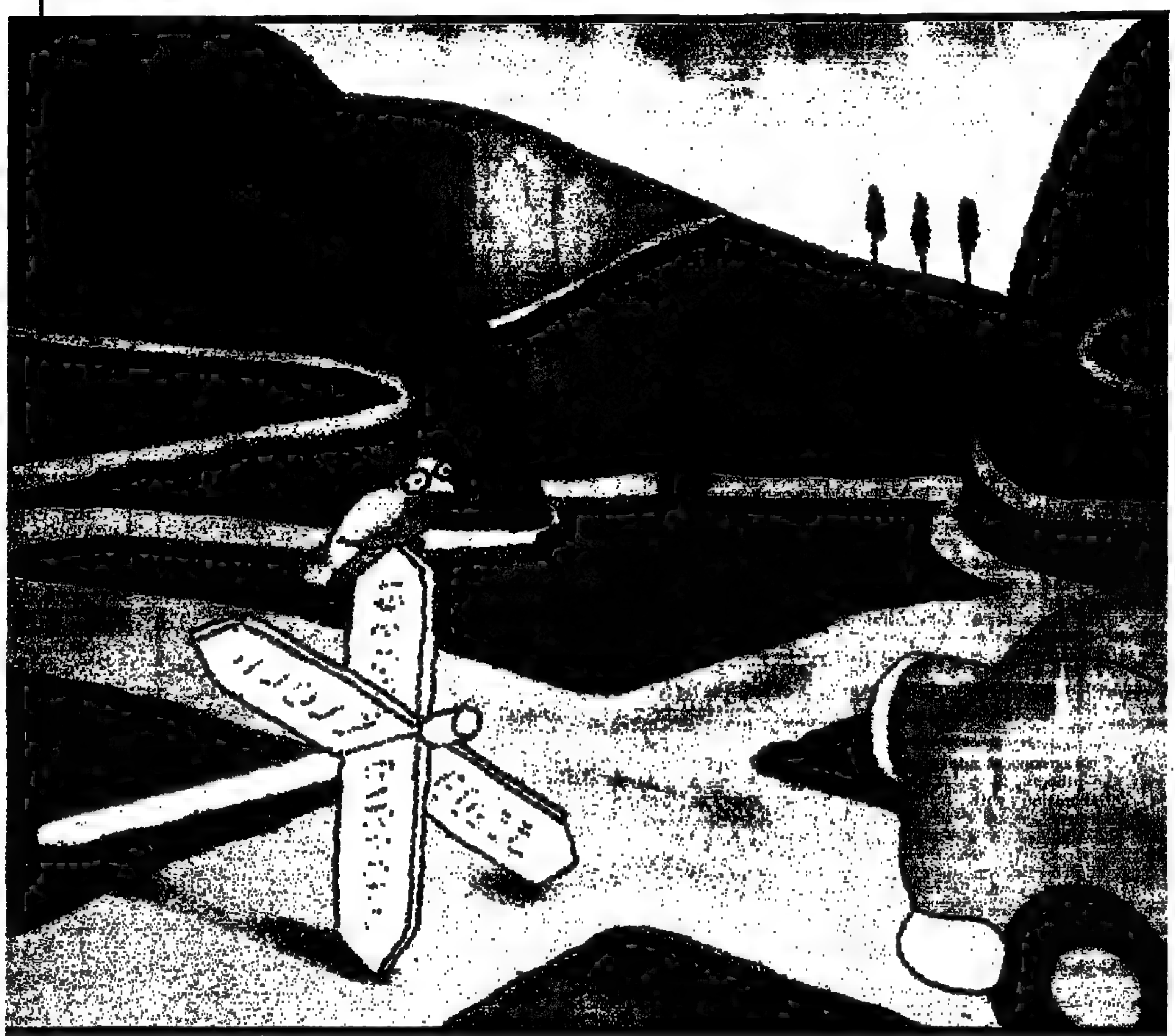


fig. 3
What good's a cellular phone if you don't know where you are?



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Life in the raw: 'Horses fighting in a stable', 1818 by Théodore Géricault

Bound by powers of observation

William Packer finds many similarities in the work of Géricault and Desportes, two French artists of different eras

It is through drawing that we come closest to the artist working, but what is less often taken into account is that it is through drawing, too, that artists themselves come closest together across the years, all the difference of time and temperament and national schools notwithstanding. From the studies of Holbein to those of Ingres and Degas, we sense that same shock of recognition of a common humanity and experience of the world.

It is no surprise, than, that two artists born into the same culture, separated in the overlap of their lives by a mere 48 years and the *chasm of the French Revolution*, should exhibit a certain sympathy in their work. There are, of course, enormous differences too, between the decorative painter of animals, and in particular the hunt, to the courts of Louis XIV and Louis XV *and the young genius of burgeoning* Romanticism; but in the excitement of battle or the hunt, and in their manifest love of animals as they really are, they stand on common ground.

The point was made for me when, in passing through to the show of Géricault's graphic work now at the Fitzwilliam Museum, I chanced upon the small study, in oil on card, of cats in various attitudes, by Alexandre Desportes (1661-1743). Having lately seen similar studies of his in the small show now at the Mona Bismarck Foundation in Paris, I was perhaps prepared. Even so, this single piece, dating from the earliest years of the 18th century, seemed just as close in the reality of its observation to Stubbs, Menzel or Degas, as to Géricault (1791-1824).

This Géricault show covers a lot of ground, from his early anatomical studies to his engagement with print-making and lithography in particular, collaboration with printers and publishers, and travels to Italy and England. And *beyond the gestural extravagance* and sentiment of Romaniticism, what we find is the underlying rational curiosity in how things are, which gives the work its probity and strength.

The myth would have it that the brilliant young artist, dead at 33 in 1824, was self-taught, but in truth he studied hard, notably with Vernet and Guérin. His early human studies are based on Monnet's great *Anatomy for the use of Painters*, published in the 1770s, which established the graphic convention by which the subject would be taught for the next 200 years. But those of the horse, made from *museum casts of a flayed carcass*, are the more spectacular. The assured, economical sepia-wash account of the articulation of the lower leg, tendons taut around heel and hock, is the single most beautiful work on show.

In the excitement of the hunt or battle and in their love of animals, they stand on common ground

What follows are the prints and illustrations, the experiments with heightened grounds to reinforce the emotional effect, all of which are fascinating. But impressive though the worked-up drawings and finished prints are, it is at the point of observation, be it only a scribbled note of turn of gesture, that he is always the more truly impressive.

In Paris, Alexandre Desportes is not for the faint-hearted nor the politically correct. His celebration of the hunt, in all its gory splendour, the snarling pack tearing *down its quarry, is unabashed.* And yet how beautiful these creatures are, seen in their animal nature: "Tane", the favourite hound of Louis XIV, with a brace of partridge, "Pompée" and "Florissant", the hounds of Louis XV. *How beautifully they are painted*, filling their decorative commission, but yet so vigorous and true. It is in this respect that the oil studies are so remarkable, at once for the directness and honest of their observation, their unsentimental curiosity, and above all the sheer love of nature they display. Fox, heron, buzzard, hoopoe: all fall beneath his clear eye and bold hand, and so too the vegetable kingdom. A branch of oak leaves makes as perfect a botanical celebration as you could ever hope to see.

It was Desportes' misfortune, dying at 82 in 1743, to be overshadowed in his reputation by the younger, more blatant talent of Oudry, and so forgotten. But he was famous in his time, and much respected by his peers, notably *Chardin. There could hardly be* sounder a recommendation.

Géricault – water-colours, drawings and prints from the Ecole des Beaux-Arts, Paris: the Fitzwilliam Museum, Cambridge until May 25; supported by the French Embassy and Schlumberger Cambridge Research. Alexandre-François Desportes – tableaux de chasse: Mona Bismarck Foundation, 34 Avenue de New York, Paris 16 until May 16, then to the Musée de la chasses, Gien.

How death becomes them

THEATRE

ALASTAIR MACAULAY

Shockheaded Peter
Lyric Theatre, London W6

Everything about the staging of *Shockheaded Peter* feels original, and much of it is marvellous. Described as "a junk opera", it is inspired by the tale and illustrations of Heinrich Hoffmann's celebrated *Struwwelpeter* (1844), and is directed by Julian Crouch and Phelim McDermott, who have throughout the 1990s been *among the most inventive* figures in British theatre.

Crouch's and McDermott's taste inclines towards caricature, history, bizarrerie, melodrama, wit; for sets that look like theatre sets, for masks and puppets and footlights, for acting that never lets you forget it is acting; and for entertainment that is both innocent and macabre.

They seem to me now like ingenious children, now like impassioned boffins. Gradually, then with increasing emphasis, and finally with grotesque insistence, they use *Shockheaded Peter* to remind us how that collection of cautionary children's tales is uniform in leading each of its several heroes to his or her death. Matilda with her matches; Conrad Suck-a-Thumb; Johnny *Head-in-Air*; *Fidgety Phil*; the Man with the Gun; Flying Robert... These and others all die for their original sins. Though almost all of them are children, and though their faults are *scarcely* heinous, their *hubris* is given the ultimate punishment, and there is no tenderness in the telling. Death becomes a black refrain. And to see how Crouch, McDermott & Co. reveal the gruesomely energetic malice of German Expressionism already at work in these mid-19th-century stories is oddly thrilling.

You have to laugh, especially when a toy rabbit – the protagonist of one tale – is seen ascending to heaven. Clouds zoom downward past *him as he rises; his big ears* flap like Dumbo's; and as he rises into rabbit nirvana, the narrator, a spooky falsettist, is screaming "Dead! Dead! Dead!" like the witch in *Hansel and Gretel.*

All the tales are told differently. Vast spikes of Peter's shock of hair rise through the floorboards; Harriet's petticoats lift and flap and prove to be flame-coloured underneath; scarlet cotton streamers fall from the sockets where Conrad's too-often-sucked thumbs have been cut off by the *Scissor Man*; Fidgety Phil sets off a whole percussion cadenza.

The designs – the work of Crouch and Graeme Gilmour – are the show's most brilliant component. Life-size and astonishingly life-like marionettes; tiny Punch-and-Judy-type puppets controlled by highly visible actors; fabulously baroque wigs; *and,* above all, the vast toy-theatre-type set, with its painted flats, and with doors and windows and curtains in its every layer. But, as always in Crouch/McDermott shows, it is hard to separate one element from another: in particular, the designs and the acting seem to be one and the same.

As the show accelerates, it becomes more impish, more absurd, more insistent

Julian Bleach is outstanding as the ghoulish and death-dealing master of ceremonies. Martyn Jacques has adapted the lyrics and directed the music, achieving a music-hall flavour to the show, at its best like a nursery version of Brecht and Weill ending the show. He is also the inscrutable/sinister/gleeful falsettist who croons or shrieks most of the individual narrations.

Which brings me to the besetting problem of this 105-minute-long show. In its first half, it is only intermittently wonderful. In between, it obviously sags, creaks and clunks. Crouch, McDermott & Co love to prolong our anticipation, but as they do so, we feel their strain in keeping us enter*tained. Yet, as the evening* progresses, this naughty *kindertotenlieder* show accelerates; grows more impish, more insistent, more absurd; enthralls.

Sponsored by Barclays Stage Partners. To May 9.

Thrilling: Julian Bleach and Martyn Jacques Alastair Muir

Britten strikes a chord at last

NEW YORK OPERA

WILLIAM WEAVER

Paul Bunyan
Lincoln Center

The Auden-Britten opera (or operetta) *Paul Bunyan* was originally conceived by that canny, humane expatriate music publisher Hans Heinsheimer, who suggested the composer write a work suitable for high school performance. The time was the late 1930s, era of Roosevelt's thrilling and debated New Deal, of apparently triumphant fascism in continental Europe, and – on a different level – the booming Broadway of Irving Berlin and Cole Porter, now invaded by another exile, Kurt Weill. All of these historical conditioners can be felt in Auden's deft, moving, exhilarating libretto, and are sensitively supported, enriched, extended by Britten's subtle, versatile score.

When the work was first heard, in Brander Matthews Hall at Columbia University *on May 5, 1941, it was not* well received. Britten and Auden subsequently had a falling-out, and Britten did nothing to push the piece in the UK when he soon returned there. Then, in 1976, *shortly before his* death, the composer revised the piece and had it given at Aldeburgh. But still it did not catch on. In the US, it was practically forgotten.

Now – in a production previously seen at Glimmerglass, the summer opera season in upstate New York – *Paul Bunyan* has finally *arrived at Lincoln Center.* The reduced but effective orchestra, conducted by Stewart Robertson (making his City Opera debut), was alert to every nuance, conveying the pathos and the *humour with equal perceptiveness.*

The direction of Mark Lamos was constantly, brilliantly inventive, never seeking attention for its own sake and always sharply focused on the work. And what a wonderful work it is! Even the crustiest reactionary could not have objected *to the use of titles, as they* allowed the audience to catch every word of Auden's libretto. It includes, after all, *beloved poems like "Gold in* the north" and "Carry her over the water", and the magnificent final prayer, with its ironic wit and sobering undertone – a conclusion worthy of the serious *Rossini of Mosè in Egitto or Guillaume Tell.*

Robertson and Lamos could rely on equally gifted collaborators, such as Paul Steinberg (sets), Constance Hoffmann (costumes) and Robert Wierzel (lighting). The cast, too, was near-perfect, so attuned to one another that it is perhaps *invidious to single out any* of them. But the debutant baritone David Lutken, who as the narrator/ballad-singer brought an appropriately laid-back touch to the piece, cannot go unpraised, nor can John McVeigh (Hot Biscuit Slim) and Elisabeth Comeaux (Tiny), an irresistible, romantic pair of lovers. *In one of the many small* roles, James Ruff, a singing, dancing Western Union Boy, won unanimous, deserved applause.

For years, enthusiasts have been saying that *Paul Bunyan* should be in the repertory. Perhaps now, thanks to the corresponding enthusiasm of Glimmerglass and City Opera, it is.

INTERNATIONAL

Arts Guide

AMSTERDAM

CONCERTS
Concertgebouw
Tel: 31-20-675 4411
● London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein and Copland; May 2
● London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein, Ives, Mahler and Strauss; May 3

EXHIBITION
Van Gogh Museum
Tel: 31-20-570 5200
Jewels from a Photographic Collection: highlights from the Print Room of *Leiden University*, selected by students and focusing on the period 1860-1900. Includes works by Breitner and Witsen as well as many hitherto unknowns; to May 3

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Wozzeck by Berg. Wim Trompert directs a revival of Willy Decker's 1994 production, with designs by Wolfgang Gussman. With the Netherlands Philharmonic conducted by Hartmut Haenchen; Apr 28

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
La Sylphide: revival of a production designed by David Walker and directed by Peter Schaufuss, after August Bournonville; Apr 28; May 1

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Lohengrin: by Wagner. Revival of a production conducted by Christian Thielemann and staged by Götz Friedrich; Apr 30
● Parsifal: by Wagner. New production conducted by Christian Thielemann in a staging by Götz Friedrich; May 3

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Don Pasquale: by Donizetti. La Scala production conducted by Maurizio Benini/Roberto Polastri in a staging by Stefano Vizioli. Cast includes Ruggero *Raimondi*; Apr 28, 30; May 3

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: American premiere of Carter's Clarinet Concerto, conducted by Pierre Boulez with clarinet soloist John Bruce Yeh. The programme is completed by Mahler's Symphony No. 1 in D Major; Apr 28
● Chicago Symphony Orchestra: *conducted by Pierre Boulez in* works by Ravel, Ligeti, Messiaen and Roussel. With piano soloist Pierre-Laurent Aimard; Apr 30; May 1, 2

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Italian Baroque Terracotta from the Hermitage Collection: 35 works collected in the 1740s by the Abbot Farsetti, before they were acquired by the Tsar. Never before seen *in the US, the collection* includes pieces by Bernini and Algardi; to May 3

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Lady Macbeth of Mtsensk: by Shostakovich. New production by Lev Dodin, conducted by Semyon Bychkov; Teatro Comunale; Apr *29; May 2*

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; Apr 29; May 2

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Michael Tilson Thomas in a programme including works by Bernstein, Mahler and *Copland; Apr 29*

Royal Festival Hall
Tel: 44-171-960 4242
● London Philharmonic Orchestra: conducted by Mark Wigglesworth in works by Debussy, Beethoven and Sibelius; Apr 29
● Philharmonia Orchestra: Mozart Piano Concerto Cycle. The second of two concerts given by András *Schiff features the three final Piano* Concertos, Nos. 25, 26 and 27; Apr 30
● The Royal Opera: Parsifal, by Wagner. Concert performance, conducted by Bernard Haitink. The title role is sung by Plácido Domingo; Apr 28; May 1

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
La Bohème: by Puccini. Steven *Pimlott's production is revived by* Barry Atkinson and Frances Moore, and conducted by Alex Ingram; Apr 28; May 1

LOS ANGELES

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Il Trovatore: by Verdi. Conducted by Gabriele Ferro in a staging by Stephen Lawless. Cast includes Vladimir Bogachov; Apr 29; May 2

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
Detroit Symphony Orchestra: conducted by Neeme Järvi in the opening concert of a European tour. Programme includes Prokofiev's Piano Concerto No. 3, with soloist Leif Ove Andsnes; Apr 29

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Bernard Klee in a programme including works by Debussy and Schoenberg. With soloists including soprano Hildegard Behrens; Apr 28
● Munich Philharmonic Orchestra: conducted by Heinrich Klug in works by Ginastera and Milhaud; May 3

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Arnold Böcklin, Giorgio de Chirico, Max Ernst: Journey into the Unknown. Selection of 130 works; previously seen in Zurich; to May 3

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
York Philharmonic: conducted by Leonard Slatkin in works by Carter, Mahler and Suk. With baritone Dmitri Hvorostovsky; Avery Fisher Hall; Apr 30; May 1

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Kurt Sanderling in works by Mozart and Bruckner. With violin soloist Tedi Papavrami; Apr 29, 30

ROME

EXHIBITIONS
Palazzo Ruspoli
Tel: 39-6-6830 7344
www.palazzoruspoli.it
Mummy Portraits: nearly 200 portraits, previously seen at the British Museum in London, painted on wooden panels, linen shrouds and plaster masks; ends on *Thursday*

TOKYO

EXHIBITIONS
Suntory Art Museum
Highlights of Asian Painting from *Cleveland's Museum of Art:* selection of 100 works ranging from the 11th-19th centuries and focusing on the figural tradition; from today until Jun 21

VIENNA

EXHIBITION
KunstHausWien
Tel: 43-1-712 0495
COBRA 1948-1951: organised to mark the 50th anniversary of a post-war group of experimental artists who derived their movement's name from their three cities of origin: Copenhagen, Brussels and Amsterdam; to May 3

WASHINGTON

DANCE
Kennedy Center
Tel: 1-202-467 4600
Dance Theatre of Harlem: programme of works by Wilson, Balanchine, North and Holder; Opera House; May 1, 2, 3

TV AND RADIO

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Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports:
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Best of both worlds?

The most surprising and boldest change in the British government's first year in office is working – up to a point

Almost a year ago, just five days after coming into power, Gordon Brown announced that the Bank of England was to be operationally independent. This remains the government's most startling gambit. Is it paying off?

The answer depends, in part, on what its purpose is taken to be. A concealed aim may have been the desire to hand to the Bank the obligation to raise interest rates that had been kept too low, too long by Mr Brown's predecessor, Kenneth Clarke. Certainly, the Bank has recently been anguishing over whether to raise rates again. The ostensible purpose, however, was laid out in the chancellor's letter to Eddie George, the Bank's governor.

In it, Mr Brown reminded Mr George of the manifesto commitment to "ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term political manipulation". He also told the Bank governor that the goal would be price stability. "Without prejudice to this objective," the Bank would have "to support the government's economic policy, including its objectives for growth and employment".

In essence, this new regime was a way to resolve an old debate between advocates of discretionary policymaking and policy based on explicit rules. By making an inflation rate of 2.5 per cent the objective, while giving the new Monetary Policy Committee (MPC) discretion on how to achieve it, the government hoped for the best of both worlds.

The minutes of the MPC suggest the government is, by and large, getting what it wants. They reveal a committee confronting the difficulties involved in using the discretion it has been granted, to achieve the objective it has been set. True, the MPC is divided not just over whether base rate should be 7¼ per cent, rather than 7 per cent, itself a trivial difference, but over more fundamental issues. Fortunately, these divisions have not eliminated – and in some respects have reinforced – the benefits of the new regime.

The credibility of the goal of low inflation has obviously improved. The yield differential on 10-year government bonds between the UK and Germany has declined from 1¾ percentage points before the announcement to below 1 percentage point today. The gap between yields on conventional and index-linked gilts – an indicator of inflation expectations – has declined from 4 percentage points to 3 percentage points today.

The process is far more transparent, open, accountable and free from short-term political manipulation than before, as the chancellor wished. Divisions in the MPC are known; minutes are increasingly candid; the debate focuses on substantive questions; and members are subject to thorough questioning by the Treasury Select Committee of the House of Commons.

Divisions in the MPC have brought out several important tactical questions:

● Should rapid reversals in interest rates be avoided?

● Is a forecast that inflation will be above the target sufficient reason to raise rates?

● How far should policy try to fine-tune output?

On the first of these points, interest rates should, logically, be set to deliver the target. Otherwise, they will be "behind the curve" and movements will be have to be bigger than would otherwise be necessary, making the the economy needlessly unstable. The argument against this position is that there may then be swift reversals, as new information arrives.

The minutes of the March meeting of the MPC reports the objection that "such reversals could be misunderstood, creating uncertainty both in financial markets and in the wider economy". Thus speaks the classic central banker, to whom it is more important to avoid admitting a mistake than to avoid making one.

The argument that central-bank decisions should not be swiftly reversed is unpersuasive. Central bankers are not touched by divine wisdom. They will make mistakes and must feel free to change their minds. What matters is that they explain themselves. This is why the Bank needs both to publish a statement to accompany any change in rates and to accelerate the publication of the minutes.

On the role of forecasts, the MPC is not a machine bound to do what the forecasters suggest. Equally, it must be mindful of the temptation it faces to postpone raising rates. The minutes argue that forecasts do "not themselves dictate mechanically precisely by how much or when official rates should change". Nevertheless, the MPC needs a strong reason to publish a forecast suggesting it will fail to meet its target and then do nothing.

Finally, on fine-tuning, the February minutes report the view that interest rates should not be raised because "an immediate increase in interest rates would aggravate the downturn in output projected for 1998". A postponed increase, on the other hand (even if it had to be larger), might have its effect when growth was expected to be stronger, in 1999. This is the finest of macroeconomic fine-tuning. It is disturbing that members of the MPC believe they possess the knowledge and skill to manage the economy in this way.

Whatever one thinks the right answers are, the very fact that such questions are now being debated is valuable. More immediately exciting, though, is whether the decisions resulting from those debates, to leave rates at 7.25 per cent, are correct.

Certainly, the Bank is unlikely to raise rates in the near future. Last week's data, which suggest the economy is slowing, indicates it is under no pressure to do so. All the same, not to raise rates is to gamble on the future strength of sterling.

It is only because of the huge appreciation of the exchange rate since the summer of 1996 that there is much chance of hitting the target two years hence. As the chart shows, sterling is now at levels not seen since 1982, in real terms. Unfortunately, there is no good explanation for sterling's extraordinary strength. What happens then if it experiences an equally inexplicable collapse? The inflationary pressure its rise has contained would appear.

It may be impossible to know why sterling has been so strong, but it is not difficult to foresee what might make it weaker. In its latest forecast, the Organisation for Economic Co-operation and Development suggests the deterioration of the external balance will turn a 3.1 per cent expansion of final domestic demand into 1.7 per cent growth of GDP. In anything like such circumstances, sterling could easily weaken dramatically. This could then confront the MPC with the worst of all worlds – stagflation. Domestic demand growth may be slowing, but there would still be the inflationary impact of a devaluation on an economy very close to full capacity.

All this is out of Mr Brown's hands. He can only moan about inflationary wage settlements, in the time-honoured fashion of British chancellors. To his credit, he has created a sensible monetary regime. It ought to deliver what he hopes, in the long run.

Whether it does so depends on the MPC. It confronted a nasty dilemma from the start – not the strength of sterling, which was the remedy for the inflationary consequences of overheating, but its ignorance of how long it would last. With luck, it will last long enough and end smoothly enough to deliver the target and a soft landing. But the MPC may now be relying too much on luck.

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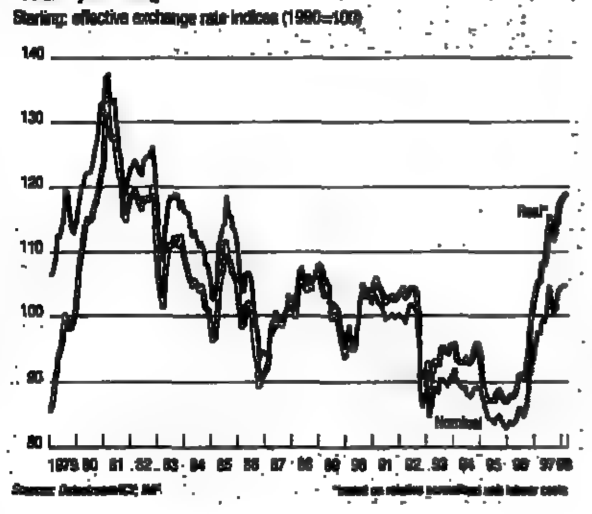
A hard pounding

Sterling: effective exchange rate indices (1990=100)



Source: Datastream/ICV; IMF *based on relative normalised unit labour costs

LETTERS TO THE EDITOR

UK's chance to seize nuclear initiative

From Mr Gordon Thompson.

Sir, Your editorial on the UK's acceptance of Georgian weapons-grade uranium was a mixed bag ("Nuclear parcel gets passed", April 23). On the positive side, you identified the significant global threat posed by insecure storage of nuclear weapons materials, and you called on the nuclear states to reduce their stocks of these materials. You were also correct in contrasting the small amount of Georgian material with the much larger global stocks. However, you improperly interpreted the public outcry on this issue, and in doing so you performed a disservice to policy.

The public is deeply distrustful of government and industry pronouncements on nuclear matters. This distrust flows not from ignorance but from bitter experience. Tony Blair and his colleagues should reflect on that experience and develop a nuclear policymaking approach that regains public trust. The approach should stress openness, accountability, full examination of alternative options, and public involvement.

Such an approach could be uncomfortable for parts of the nuclear industry, but could also create a platform from which the Blair government could launch a global initiative to strengthen control of nuclear weapons materials.

This initiative could benefit the UK in a variety of ways. An open policymaking approach might reveal that the plutonium operations of British Nuclear Fuels are uneconomic and, as indicated by the Royal Society, an environmental and security threat. Yet a global initiative on nuclear materials control could create a new outlet for SNFL's proven capabilities in nuclear site clean-up and waste management. These capabilities are badly needed in Russia and their application could be linked with improved security at Russian nuclear facilities.

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Too many weaknesses in EU code of conduct on arms sales

From Mr David Bryer.

Sir, The government official quoted in your report ("UK urged to tighten gun export curbs", April 23) as saying that arms export controls are already "to the highest standards" takes an over-optimistic view. Last Wednesday's revoking of export licences for handguns to British companies by the US State Department shows how far there is to go.

Although the UK government has made significant efforts on arms policy since last May, present UK and French proposals for a EU-wide code of conduct on arms sales will not lead "to the highest standards".

These proposals include caveats that would allow arms to continue to be supplied to users with poor human rights records, or where their cost would be likely to divert resources away from social spending.

Perhaps even more important, they include no provision for providing accurate and timely information of arms sales to the parliaments, public or media of European Union countries. And EU governments have not yet agreed on common lists of countries that will not receive further arms sales, or where there will at least be a presumption of denial.

The EU code is a step in the right direction, as were Labour's new arms guidelines of July 1997 on which the code is based. But these weaknesses mean that the public can have little confidence that the code will be an effective mechanism to implement the UK government's own stated aim: that arms should no longer go to where they will be used for either internal repression or external aggression.

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Japanese eggs and chickens

From Mr David E. Jolly.

Sir, Jeffrey Sachs ("Danger in flogging Japan", April 24) confuses the chicken and the egg of the east Asian financial crisis.

Japan's disastrous decision to raise taxes sharply from the start of April 1997 sent the domestic economy into a tailspin and, in a self-perpetuating turn, contributed (and still contributes) to the Asian crisis by sharply reducing Japanese demand for Asian exports.

The increases were implemented in the name of fiscal prudence, despite the fact that the financial system was effectively insolvent and the recovery barely afloat. Contrary to Mr Sachs' assertion that criticism of these policies is "hyperventilation", Japanese business leaders' comparison of Ryutaro Hashimoto, the prime minister, with Herbert Hoover is entirely appropriate.

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Bad reception in Brussels

The EU's efforts to ensure fair competition in digital satellite television could prevent the emergence of a strong European business, argue **John Gapper** and **Emma Tucker**

In the next few weeks, Brussels will publish two crucial rulings covering two of the most important broadcasting markets in Europe – Germany and the UK. Together, these could set the rules for competition in the rapidly evolving digital satellite television sector for years to come.

First, the commission is due to rule on a home-shopping and banking service for British Sky Broadcasting's planned digital 200-channel service. The venture, known as British Interactive Broadcasting, is controlled by BSkyB and British Telecom.

Second, it is considering the latest effort to establish a digital pay television network in Germany. Even though it had previously blocked an attempt by Kirch Group and Bertelsmann to set up a joint network with Deutsche Telekom four years ago, the two media companies are trying again. This time, they are seeking to form a digital venture based around Premiere, an existing TV service.

In each case, the commission will seek to ensure competition by preventing companies from using their dominance to shut out others. But some analysts argue that, because of the cost structure of the industry, a standard competition approach will prevent the emergence of viable pan-European businesses. The question is whether Brussels will bend or whether it will resist grand alliances.

Until yesterday, Kirch and Bertelsmann had toughed it out, arguing that the commission was over-estimating the dangers of Premiere. But yesterday the companies backed down and offered several concessions.

The EU's attitude is crucial. Its rulings come as pay television gathers pace in Europe. In April 1996, Canal Plus launched its service followed by Kirch's DF1 in Germany that July. BSkyB is due to begin its 200-channel UK service this June.

The move to digital satellite is significant. Its capacity to carry a huge range of channels means it could become television's dominant form of distribution. Digital networks will not only be able to carry a lot of traditional television channels. They will also provide the capacity for a growth in pay-per-view services, with viewers paying extra for individual programmes such as a recently released Hollywood film.

Brussels has clear grounds for concern. If a single digital television network emerges, it may well try to ensure that viewers watch only its own programmes and use its own services.

The EU's alarm bells therefore rang loudly when Bertelsmann and Kirch last year abandoned a debilitating fight, agreeing to form the Premiere service. They also formed a link with Deutsche Telekom. For European regulators, matters could hardly have been worse. Not only were the two competing companies in German satellite television linking up, but they were also involving Germany's largest cable operator.

When it launched an inquiry in January, the commission said it feared that Premiere would dominate pay television. "There is considerable evidence that no additional broadcasting and marketing platform could develop," it said.

The issue has pitted the German federal government against the commission. Similarly, UK regulators approved BIB only to find the commission taking a tough line. National authorities want their domestic media companies to emerge as strong forces, capable of competing across Europe. But the EU is more concerned with keeping a level playing field.

Yet the approach of Mr Karel Van Miert, the competition commissioner, has even come under attack from within the commission itself. Other directorates have emphasised the need to encourage a strong European industry. "Our approach is not consistent," says one official. "We say we want to help the audiovisual sector develop, but we block it with competition rules."

Richard Dale, a media analyst at Salomon Smith Barney, agrees. "Developed European economies are only capable of supporting one profitable digital broadcasting service because of the enormous costs involved," he says.

Digital television has several characteristics that make it extremely hard to achieve stable competition among two or more European companies:

● It tends to be highly geared. A company will initially sustain enormous operating losses before moving – after three or four years – into equally large profits. Not only must cash be spent on infrastructure, but companies also have to invest in rights to films and sports events.

● While US satellite broadcasters, such as DirecTV, can reach an audience across an entire continent, this does not apply in Europe. Not only are language and culture more divided, but rights to movies and sports are sold on a national basis.

● Broadcasters have to spend more money to fill up a greater number of channels, and viewers are unlikely to accept far higher subscription rates to compensate. A new entrant is therefore less likely to try to compete with an established service.

Competition may not even be the best deal for consumers. "Theory tells you two competing businesses are better for the consumer than one, but it may not hold here," says Mr Dale. If two satellite broadcasters compete in one territory, he argues, not only might they confuse consumers with technically incompatible services, but they will tend to bid up the price of "must see" programming, such as rights to UK Premier League football. This will make it expensive to buy one service, and impossible to receive both.

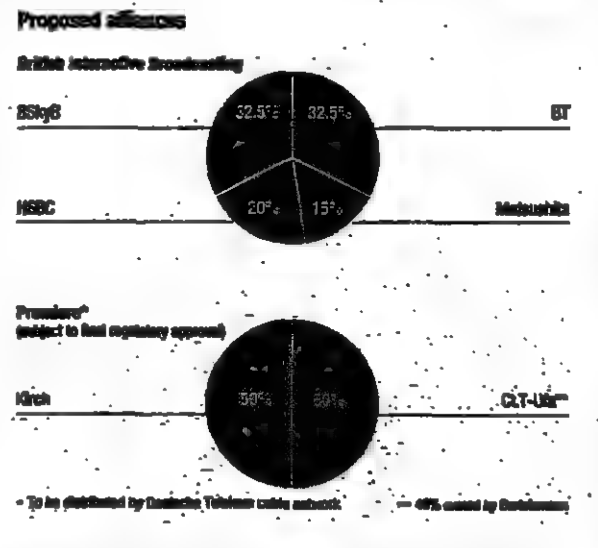
Many analysts say the commission should stop fighting consolidation of satellite broadcasting networks, and concentrate instead on promoting network openness. This means ensuring that satellite broadcasters, just like national telecoms operators, are compelled to offer the use of their networks on fair terms.

"The bottom line is that as long as satellite networks are open, it matters less how many of them there are," says Adam Bird, vice-president of Booz-Allen & Hamilton, the consulting firm.

There have been signs that Mr Van Miert is willing to clear BIB with such safeguards. But he has signalled stronger doubts about Premiere because of its combination of a satellite monopoly with a cable network.

The danger with blocking Premiere is that, given the peculiar economics of the industry, Europe's largest economy could be left without any digital satellite service at all. That could undermine the EU's claim to be assisting in creating a strong broadcasting industry. Mr Van Miert has good reason to study Premiere's compromise offer very carefully.

Proposed alliances



COMMENT & ANALYSIS

FINANCIAL TIMES
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The US and Nato expansion

The US Senate is expected to vote this week on one of its most important security decisions since the end of the Cold War: the enlargement of the Nato alliance to include Poland, Hungary and the Czech Republic.

The extension of Nato's security umbrella to countries that were once part of the Soviet orbit is clearly a decision of great moment, implying as it does that US forces are being committed to their defence. Some voices in the US are urging delay in this decision, or seeking to encumber it with conditions. This would be a mistake.

All three countries are eminently qualified for entry on the basis of their democratic systems, their market economies, the civilian control of the military and their desire to assume the burdens as well as the benefits of Nato membership.

Denying them accession would leave in disarray the strategy of extending western Europe's zone of democracy, peace and prosperity eastwards. It would destroy the system of incentives, which includes possible membership of Nato and the European Union, that is already ensuring significant co-operation between the fractious countries of central Europe. It would also signal a further retreat by the US towards isolationism.

Most significantly, US security is still tied closely to that of Europe even after the end of the cold war. The inclusion of these countries would strengthen the European security zone, and therefore enhance US security.

It is important too that the Senate approves the accession of these three countries without placing undue conditions on the entry of further new members. One amendment, from Daniel Patrick Moynihan, the Democrat senator, would make European Union membership a prerequisite for joining Nato.

This would put the cart before the horse: forcing would-be Nato members to await the completion of the EU's complex negotiating processes would delay unnecessarily their entry into Nato.

Another amendment, from Senator John Warner, that would delay for three years accession of more countries to Nato, has greater merit. Even if the amendment fails, it is important that Nato does not rush into further enlargement. There is no point in needlessly offending Russian sensitivities by an excessively rapid expansion of Nato towards the Russian border.

This is not to say that the Russians should be allowed a veto on membership of Nato. But there is a strong case for seeing how well the first new members integrate into the Nato network. More fundamentally, expansion of the alliance to encompass former parts of the Soviet Union would raise huge political and military questions about Nato's mission which need to be the subject of an important public debate.

OECD's future

The Organisation for Economic Co-operation and Development's big annual meeting will finish today on what is likely to be a subdued note. Negotiations to agree the Multilateral Agreement on Investment (MAI), the OECD's top priority, have ground to a halt, and the treaty now looks almost certain to be shelved, or at least delayed indefinitely. This will no doubt cause some observers to ask themselves whether the OECD is an outdated institution, deserving of the same fate as its failed treaty.

The OECD was set up in 1961, with the primary aim of supporting the economic liberalisation of the western democracies. In this aim it was hugely successful.

But it now finds itself under attack from all sides. The fall of communism has deprived it of political usefulness. Co-operation within Europe is being taken over by the European Union. And it is being seriously squeezed by the influence of the WTO in trade liberalisation, and, to a lesser extent, the IMF in macro-economic policymaking.

Some of its troubles are self-inflicted. The OECD has failed to adapt to the shift in the global balance of economic power. It is still concentrated on Europe and North America, having only two Asian members and one from Latin America. This exclusivity means that the OECD has remained relatively small and easy to run. But it has made it entirely inappropriate as a forum for formal talks on global issues.

The ill-fated MAI is a prime example. Developing countries have been far from happy about being dictated to by what they still see as a rich man's club. The WTO may be unwieldy, thanks to its large number of members, but, it is still the only way to negotiate these kinds of issues.

The OECD, though, still has an important role to play in the system of global co-operation – if it lowers its aspirations.

The unique feature of the OECD is that it is the only place where member governments regularly exchange information about a wide range of policy issues. This kind of peer review is becoming increasingly important in policymaking.

Because the world's major economies are in the OECD, it is a vital forum for informal discussions aimed at smoothing the negotiation of formal global agreements in institutions such as the WTO. And the OECD has a continuing role to play in the collection of data and the economic analysis of its member countries.

The OECD has a tough time ahead. But it can keep its role as a valuable institution if it keeps its aims modest, and if it makes renewed efforts to broaden its membership. The world has been transformed since the 1960s. The OECD needs to keep up.

Grand coalitions

All politics in Germany is *coalition politics* – even to the point that when ordinary coalitions of the left or right begin to crumble, the reaction is to start thinking in terms of grand coalitions of left and right.

Sunday's state election in Saxony-Anhalt produced a spectacular loss – by German standards – of 12.5 percentage points in support for Chancellor Helmut Kohl's centre-right CDU party. The chief gainer was the far-right DVU which came from nowhere to win 12.9 per cent of the vote.

The main opposition party, the SPD Social Democrats, came out on top, but only increased its vote by a couple of points. Moreover, with a slump in support for its Green allies, the ruling local SPD is now in search of a new governing partner. A grand coalition with the local CDU is now likely, as in several other states.

How much of a precedent does this offer for September's federal election? Special factors were at work in Saxony-Anhalt, where 25 per cent unemployment provides a good recruiting ground for the far right and makes the Greens seem an irrelevance.

But the poll result has two messages of national import. First, it is harder to envisage Mr Kohl winning in September. But second, not many people appear to be jumping on the bandwagon of Gerhard Schröder, the SPD's newly anointed Blairite leader.

The prospect that the September election will produce no big overall winner is reinforced by the CDU's recent squabbling with its Bavarian CSU rightwing ally, and by the SPD with its putative government partner, the Green party.

It is this possibility that is fostering speculation about a grand coalition. A combination of mainstream left and right could push through stalled tax reform, further pension changes and the deregulation that Germany badly needs.

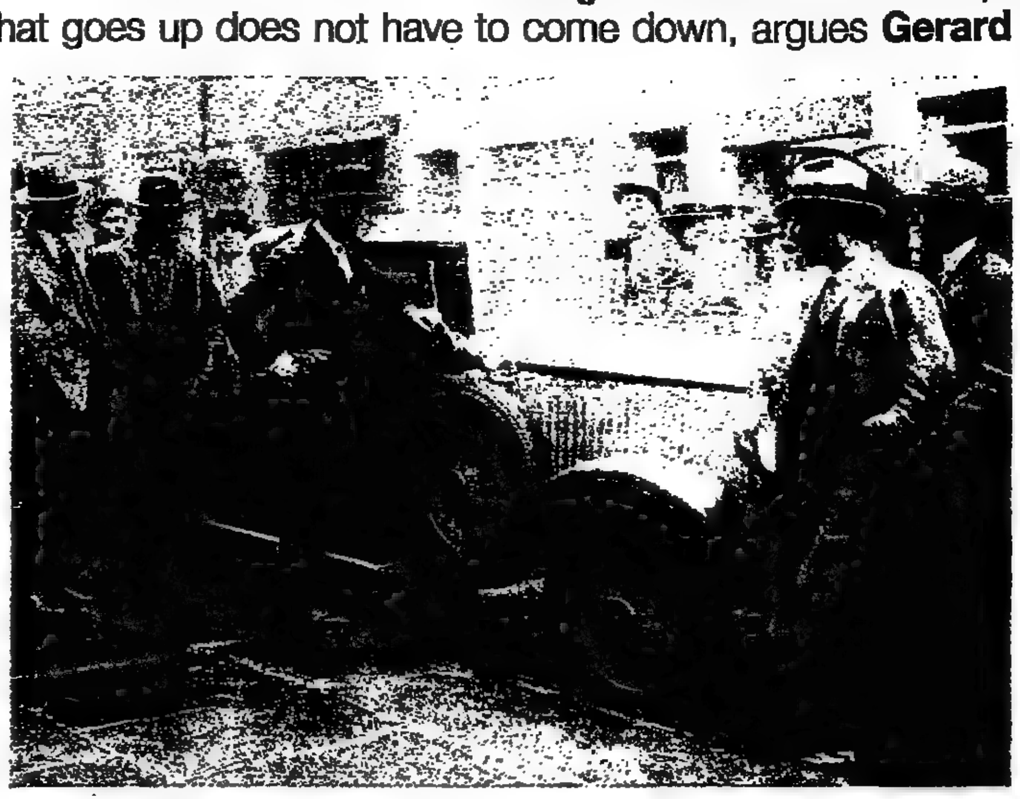
The SPD would also almost certainly have to abandon its commitment to roll back the present government's reforms of pensions and sick pay.

But the last grand coalition, in 1966-69, offers a warning. It is widely credited with making the SPD respectable, and therefore electable. But by smothering parliamentary opposition, it pushed dissent dangerously to the margins, creating the Red Army Faction which only last week formally disbanded itself.

Far better, at this stage, for Germany's main parties to set out their separate stalls, based on their different conceptions of the changes that Germany so badly needs. Mr Schröder is the new broom best placed to exploit the mood for change. But to fulfil his ambitions he needs to carry the leftwing diehards *in his party* with him.

When fears are overdone

Yesterday's sharp fall in US stocks has led to warnings of an economic slump to follow the boom. But what goes up does not have to come down, argues **Gerard Baker**



"What goes up must come down." Few *pieces* of economics-as-science are as seductive as the gravity analogy.

As US financial markets suffered their biggest setback in six months yesterday, this supposed law of gravity was being given most of the credit. Amid signs that some members of the Federal Reserve are becoming more worried about inflation and hence that interest rates may rise, stock and bond prices fell sharply. Some took this fall to be the first clear justification for their belief that exuberant financial markets have turned the US into a bubble economy.

Overblown asset prices, they fear, have been feeding on themselves for the past few years in a way that is now sure to end in disaster.

Emboldened by yesterday's fall, economic pundits are full of historical analogies: the crash of 1929, the depression of the 1930s.

Even more potently, the comparison that is all the rage is with Japan after 1989 – when the bubble burst and the economy collapsed. The higher it goes, the further it falls.

The lesson to be drawn from this experience, they say, is that the Federal Reserve in the 1990s has repeated the mistake of the Bank of Japan in the 1980s. It should have pricked the over-confidence with higher interest rates earlier. If rates do rise now, they may now have to go up too much, too late. The bubble is now so large that any action to puncture it will bring the economy crashing down.

But the *gravity* metaphor is as predictively useless as it is intellectually appealing. In economics, what goes up most emphatically does not always come down. Growth rates can vary over time but there is no iron law that says they must revert to a given level.

The real question for the US economy is not whether financial markets have been in the grip of a speculative bubble – the evidence is patchy – but, more prosaically, whether the remarkable period of strong economic performance is coming to an end. In other words, whether there has been an economic bubble as well as a stockmarket one.

For the past two years the economy has expanded at an annual rate of nearly 4 per cent – almost twice what most economists regard as the growth rate sustainable in the long-run without igniting inflation.

This growth has taken place against the background of declining inflation. That led even sober economists like Alan Greenspan, the chairman of the Federal Reserve, to ponder aloud whether the economy had entered a "new era".

Mr Greenspan's apparent optimism suggested to most economists that the Fed was prepared to break with its past behaviour and let rapid growth continue. Even if the Fed did not fully share this optimism, it was confident that the Asian financial crisis would slow growth this year in any case, removing any lingering fears of resurgent inflation.

It is worth remembering that just six months ago, in the autumn, the economic consensus was that the Asian crisis presaged not an inflationary boom in asset prices for the US but an imminent deflationary bust.

The US economy was then held to be so dependent on Asian growth that a contraction in the Far East would surely bring an abrupt end to the US expansion. This idea seemed fanciful at the time to those who pointed out that US exports to the affected countries accounted for about 0.2 per cent of US gross domestic product. Sure enough the widely predicted collapse has not happened.

Behind yesterday's financial turbulence was the opposite fear: *that the Fed now believes* frenetic growth will not slow down of its own accord. Instead it will have to raise interest rates to induce deceleration. According to this fear, idea the economy is displaying all the classic symptoms of a broad late-cycle overheating. These symptoms are fourfold:

- The stock market is at levels not justified by reason. A prospective price-earnings ratio for the market of nearly 30 and a dividend yield below 1.5 per cent can only be explained by pure speculative excess.
- Merger mania has once again gripped business as it did in the 1920s and the 1980s. The \$160bn (£96bn) merger of Citicorp and Travelers is the final indication that investors have gone completely mad.
- Property prices are rising sharply in big US cities. It is now almost impossible to get a broom cupboard in Manhattan for less than \$250,000 (£150,000).
- Most ominously, money supply is out of control. In the past year broad money growth has accelerated, a sure sign of a bubble. In the last few months the annual growth rate of M3, the broad money measure, has gone from just over 7.5 per cent to nearly 10 per cent.

The US is in a different condition from Japan at the end of the 1980s

It could be another Japan, say the bears. Since the bubble burst in Tokyo, equity prices have fallen by 60 per cent in nominal terms, commercial and residential property prices are down by nearly 70 per cent, the financial system is still teetering on the edge of collapse; output growth has averaged little more than 1 per cent a year for the last six years.

All because a timid central bank failed to prick the bubble before it grew too large. The Fed, say the critics, has made the same mistake.

Much of this is bunk. It ignores the fact that the US is in a fundamentally different condition from how Japan looked at the end of the 1980s. Though many of these symptoms may appear superficially worrying, they are not *necessarily causes for real concern.*

Merger mania may be all the rage but it is hardly reason alone to believe the economy is out of control. The total value of mergers has risen every year for the last six years. And most of the big mergers recently have been in the financial sector. They are the result of rapid deregulation rather than speculative greed. The structure of the US financial system was until very recently much as it was 60 years ago – fragmented, geographically and sectorally.

US banks are not large in comparison with European and Japanese institutions. Arguably, all that is happening is that long-delayed consolidation is under way. It is also worth remembering that US banks are sound – with low and stable levels of non-performing loans and no signs of the kind of strains that would normally presage a financial collapse.

Property prices are indeed rising, but at nothing like bubble-pace. It is true that in the past year commercial real estate price growth in New York and some other big cities has reached double figures. But this is modest, not only compared with Japan in the 1980s but even compared with the US in the same, notoriously inflationary period in the US.

It is also true that money supply growth has accelerated in the past few months. But after the experience of the past decade there is hardly a sensible economist left in the world who believes in an iron link between money supply growth and nominal GDP growth. A range of factors has undermined the value of money supply as an indicator of inflation.

The acceleration in the past few months could be attributable to special factors such as the accumulation of liquid reserves by taxpayers to meet their April tax payments. The Fed is unlikely to abandon its scepticism about broad money aggregates now.

In short, the real cause for concern comes down to this: the stock market. Its current valuation does indeed require increasingly rococo justifications about the applicability of historic price/earnings ratios and so on.

But there have been significant improvements in productivity in the last two years. The combination of rapid growth and low inflation may not be purely coincidental. These productivity gains may have raised the long-term potential growth of the economy.

Meanwhile restructuring at US corporations has cut costs. The two have combined to lower the risk premium on equities and raise long-term profit expectations.

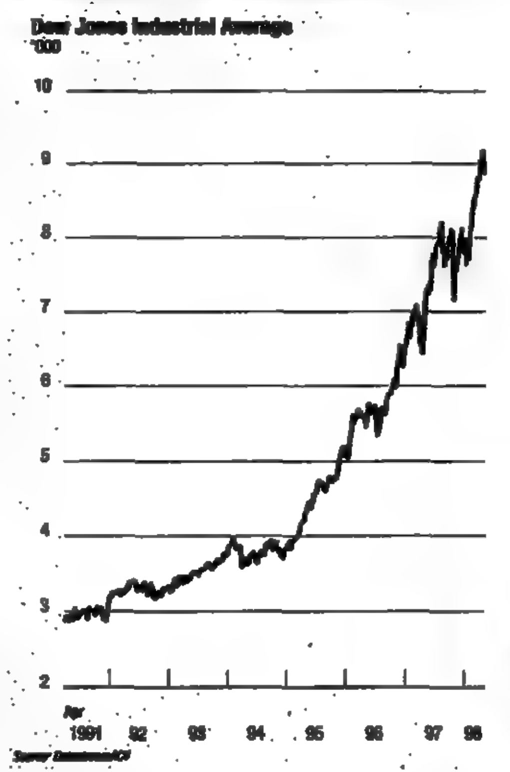
It is a shaky theory, has yet unproven. But when even a cautious central banker like Mr ("Irrational Exuberance") Greenspan can say the theory is "not alien" to his understanding, as he did last month, it should not be ruled wholly implausible.

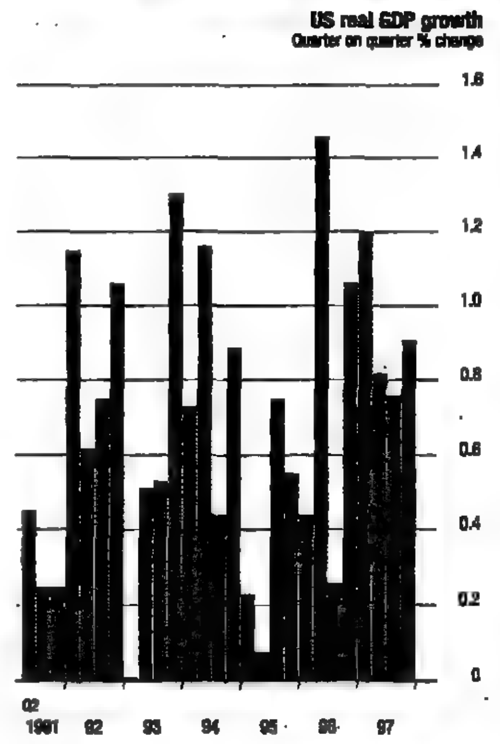
Mr Greenspan, of course, holds the key to the stock market conundrum. If the fears of a US bubble are overdone, a pricey equity market does present a specific problem for the central bank's efforts to get on top of inflation in the real economy. Many of Mr Greenspan's colleagues at the Fed have made it clear in the last few weeks that they do not share his optimism.

They have argued that *inflationary pressures are starting to* accelerate – labour costs have certainly been rising in the last few months. And they have been hinting that the Asian effect may not do the Fed's job of slowing the economy.

The Fed's open market committee next meets in the middle of May. If between now and then there are still few signs of any slowdown, the stock market could well present the Fed with a genuine conundrum.

Should it raise interest rates, or should it stay its hand for fear of precipitating a fall in the stock market on a much greater scale than yesterday's? That is the real difficulty policymakers face – not how to engender a big correction, but how to avoid it.





OBSERVER

Artioli drives off

It may be happening about a year later than most expected, but the Lotus days are finally drawing to a close for Romano Artioli, the Italian entrepreneur who's as colourful as he's volatile.

The 63-year-old amassed one fortune selling Japanese and Ferrari cars in northern Italy but lost much of it trying to revive Bugatti, another of the world's great motoring names.

Undaunted, he then coughed up £30m five years ago to take over Group Lotus, the motor cars and engineering group based in the English countryside, from General Motors.

Now Observer hears he's going home to his native Bolzano to pursue "other interests". Others – as yet unnamed – at Lotus will take on the loosely-defined role as "special projects" director Artioli has held since he sold an 80 per cent stake in Lotus to Proton, Malaysia's national carmaker, 18 months ago.

A committed car enthusiast, he'll retain his personal 20 per cent stake in Lotus. That might not be a bad move since production of the company's *Elise* small sports car is booming and helping to offset bad times for parts of the Proton business back in Malaysia.

But then Artioli can afford to be pragmatic about his remaining holding. The 80 per cent stake he sold to Proton netted him £48m – a clear £18m profit on the purchase from GM.

Mural values

Anyone wanting clues on the leadership style of Richard Huber, installed last year as chief executive of Aetna, the large US insurer, need only take a look at the way he has redecorated his office.

Aetna's Hartford headquarters have always had a certain charm about them, built like a giant Ivy League college complete with bell tower, quad and cloisters. Huber's balcony has now grown a lawn, where the green-fingered boss plans to plant some tomatoes – a rather more direct commitment than most chief executives make to organic growth.

The room adjoining his office has been decorated with an impressive mural of scenes from colonial America, including a particularly revealing representation of the West Point military academy.

In the background, dominating the Hudson Valley with a menacing plume of smoke from its summit, is Mount Etna, magically transplanted from Sicily. Look carefully in the foreground, and the impeccably uniformed commander marshalling his troops on horseback turns out to be Huber himself.

Return flight

There's another kite flying in the international airlines business. Last week's announcement that US Airways has tied up a marketing agreement with American Airlines has raised the intriguing possibility that US Airways might end up back in bed with British Airways.

BA and US Airways used to have an alliance, of course: it all ended in tears in 1996 when BA decided to link up with American instead. It looks as if regulators in Brussels and Washington might finally clear that deal this year.

American and BA have been looking out for other carriers they would add to their alliance – such as Japan Airlines, Qantas and Canadian Airlines. Now it looks as if US Airways might join the party, bringing along its formidable network of north-eastern US routes.

But any initial meetings between Stephen Wolf, the stylishly tailored chairman of US Airways, and BA chief executive Bob Ayling might be a little strained. US Airways' legal action against BA over their break-up is still unresolved and Ayling and two of his colleagues were forced to resign from the US Airways board.

The industry expects they'll get over it. Ayling, careful lawyer that he is, doesn't shudder at the mention of Wolf's name the way some BA managers do. And Wolf, who spends his spare time restoring old Jaguars, is effusively complimentary about the British carrier. Whatever their differences, he tells all and sundry, it's a superbly managed company.

Wolf even managed to be polite – sort of – about BA's lurid new livery. "I've always had a warm feeling for psychedelic hula skirts," he says.

Poll vault

US public relations outfit Fabrizio, McLaughlin & Associates has kindly sent Observer the results of a poll it has done in Nigeria. Apparently Nigerians are "generally satisfied" with the way things are going, "a significant majority" think the country is moving towards democracy and most believe the elections due in August will be free and fair.

The pollsters – whose past clients include the Republican National Committee, Robert Dole and Jesse Helms – did talk to 1001 people, but maybe not enough of the millions who stayed away from the assembly polls at the weekend. Maybe the man in the street in Lagos did think the August presidential poll would be free and fair: if so, the cancellation of the ballot after all the registered parties nominated Sani Abacha must have come as a disappointment.

As Disraeli might have put it, there are lies, damned lies and opinion polls.

Flightless fancy

Before he gives a presentation to Antipodean industry leaders, Deutsche Bank managing board member Michael Dobson intends to modify its working title: "What Emu means for Australia."

The Financial Times

100 years ago

Costa Rica Ready For War
New York, 27th April. A Panama despatch to "The Herald" states that war appears to be inevitable between Costa Rica and Nicaragua, notwithstanding the mediation of the sister Republics. General Egleslas of Costa Rica, accompanied by several officers, has embarked at Punta Arenas for the Nicaraguan frontier, in order to place himself at the head of the troops and commence operations against President Zelaya of Nicaragua. The journal "*El Commercio*," the semi-official organ of President Zelaya, says:- "There cannot, nor should there be, peace. The Nicaraguans refuse any longer to bear the aggressions of their restless and ambitious neighbour."

50 years ago

Investing In Latin America
Washington, April 27. The State Department's hope that closer relations between the United States and Latin American lands could be developed by the large-scale investment of American private capital in Central and South America is beginning to fade. U.S. investors are becoming increasingly shy of conditions imposed on private foreign capital in Latin America.

FINANCIAL TIMES

TUESDAY APRIL 28 1998

THE LEX COLUMN

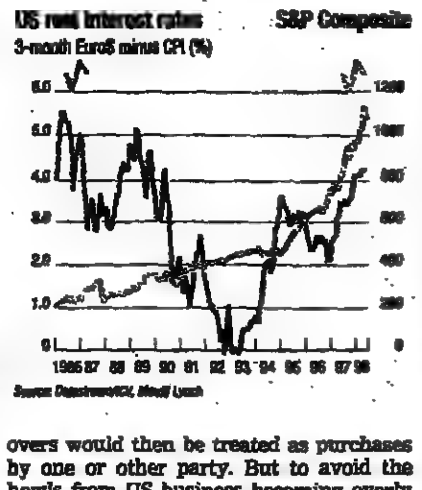
Just blame it on the bogy

Markets have had another sighting of that *most feared bogyman: higher US interest* rates. The grounds for concern are hardly new – tight *labour markets, buoyant* stock markets triggering general asset price inflation, and strong money supply growth. And so long as Asia held out the prospect of disinflationary impetus, through lower demand and cheap imports, the Federal Reserve could rest easy. But the string of senior Fed officials recently queueing up to express concern suggests that Asia is not fulfilling this balancing role.

Arguably the onus of proof has now shifted: *forthcoming* economic data will need to show why the Fed should *not* lift rates, not the reverse. But *if* rates do rise, this should hardly terrify investors.

After all, US monetary policy is by no means easy – indeed, real short rates of over 4 per cent are the highest this decade. A small touch on the monetary tiller may well suffice, and this could be the pause which refreshes. A crash is a remote possibility: that would require a much more dramatic revision of inflation and interest rate expectations than seems likely.

It is possible, of course, that the bond market will drive long rates up enough for the Fed not to have to show its hand. But investors should not take this for granted. Better to keep a hawkish eye on the employment statistics. If the next batch confirms an economy still running beyond capacity, the Fed may well act.



Source: Datastream/ICV, Merrill Lynch

US accounting

Playing at pooling has grown into one of the most popular games in corporate America. "Pooling of interest" mergers have grown to 31 per cent of all US M&A *transactions, up from just 2 per cent* six years ago. The attractions are obvious. A *pooling is usually tax free and does not* create any awkward goodwill, which has to be amortised and therefore depresses earnings in subsequent years. It is no wonder that companies have rushed to dress up even blatant takeovers as happy mergers of equals in order to qualify for a pooling.

So much so, in fact, that the regulators have woken up and are now thinking of dumping poolings completely, instead of just tightening the guidelines. All takeovers would then be treated as purchases by one or other party. But to avoid the bowls from US business becoming overly loud, the accountants have already thought of a sop to throw them: removing the requirement for companies to amortise much of their goodwill, as long as they periodically test it for impairment. This approach, being pioneered in the UK, would avoid the hit to those precious earnings.

This solution may be neater in the eyes of the regulators, but it is not clear it will bring any practical advantages. With the goodwill impediment removed and while share prices remain high, big stock-financed deals will continue – whether they are called poolings or purchases.

Reed Elsevier

Few can quibble with the logic behind Reed Elsevier's purchase of US legal publishers Matthew Bender and the remaining half of Shepard's. Now IPC has been *sold, Reed Elsevier has severed virtually* all links to the old world of consumer *publishing. However, expanding in "must* have" professional and business information does not come cheap. At over 7 times 1997 sales and 21 times operating profits, Reed has certainly paid Times Mirror a rich price.

True, Bender – which accounts for over 80 per cent of the $1.65bn total cost – deserves a scarcity premium given its size and the advanced consolidation of the US market. And it will help complete Lexis-Nexis' coverage of the US legal market. Furthermore, Reed is not alone in paying *such jaw-dropping multiples for these* types of businesses. Wolters Kluwer coughed up in a similar way *for CCH*, but had scope to improve CCH's margins. This does not look the case here: Bender's operating margin is already over 30 per cent.

The deal also highlights disadvantages in the breakdown of the Wolters Kluwer merger. *The* Dutch company was apparently among those bidding up the prices. And relatively easy US acquisitions provide a sharp contrast with the slowish pace of *Reed's* expansion in Europe. Germany is rightly a priority, but privately-owned groups such as Bertelsmann are notoriously reluctant sellers. Havas's CEP may be more easily prised loose.

Lloyd's of London

Advocates of change at the Lloyd's of London insurance market see 1998 as a momentous year. Corporate capital has moved into the ascendancy over private capital, supplied by *Names*. With global competition eroding premiums, cutting costs has become an imperative, telling against the multi-layered Lloyd's system. It could not be easier to portray the remaining Names, clinging to the complex "annual venture" system of raising capital afresh each year, as Luddites.

The trouble with this view is not only that the Names dispute it but that they have entrenched rights and cannot be bullied into selling out.

Nor can they easily be frightened when the latest profit figures – another £1bn-plus for 1995 – do not yet show the effects of competition. The Cassandras point to an unsustainable lack of catastrophes, mitigating the profit squeeze, but disaster has not struck yet.

This leaves the proponents of progress at Lloyd's with the tricky task of pursuing *a transition from old to new practices* without the stick of a crisis. There are signs of evolution: removing impediments to buying and selling capacity between auctions, *for instance*. Changes could also be made to the annual venture system without shutting out Names. To provide a lead, reform of the unwieldy composition of the Lloyd's ruling council looks essential. Meanwhile, if it benefits the corporate entities to buy out Names, they will have to pay up for it.

Canada and Cuba in talks to protect investments

By Pascal Fletcher in Havana

Canada and Cuba have launched negotiations on a bilateral agreement to promote and protect foreign investment after resolving a main obstacle to such an accord.

Cuba agreed to compensate a Canadian insurance company whose assets it had seized after the 1959 revolution. The announcement of the $9m compensation deal for the Confederation Life Insurance Company has sweetened the atmosphere for the two-day visit to Havana by Jean Chrétien, the Canadian prime minister. Four other Canadian insurance companies also hold claims but these are not expected to block the negotiations.

Canada is the communist-ruled Caribbean island's biggest trade and investment partner. Mr Chrétien said the country believed the deal would "stimulate and support Canadian investment in Cuba and will nurture the growing economic relationship between our two countries".

A bilateral accord would establish mutual safeguards and guarantees for investors from either country. Canadian officials said the outstanding insurance company claim would have been an obstacle to the agreement because it would have left uncertainty about the rights of Canadian companies to protection and compensation in disputes.

But officials added that several issues relating to non-discrimination provisions – treating foreign companies as national ones – in a future accord still needed to be resolved.

Mr Chrétien has made clear he intends to broach the sensitive topic of human rights in his talks with Fidel Castro, the Cuban president.

Canadian officials said that as part of a general appeal for the release of Cuban political prisoners, Mr Chrétien would ask Mr Castro to free four prominent Cuban dissidents whose cases have been taken up by western governments, including Canada.

In his arrival speech on Sunday, the Canadian premier underlined Canada's belief that a policy of "constructive engagement" stood the best chance of coaxing Cuba back into joining what he called "a more dynamic, more democratic, more prosperous hemisphere".

"Through good times and bad, our two countries have always chosen dialogue over confrontation, engagement over isolation, exchange over estrangement," he told Mr Castro.

Mr Chrétien's words clearly distanced Canada from the longstanding US government policy of hostility against Cuba, intensified through the 1996 Helms-Burton law. This allows the US to take action against foreign companies "trafficking" in expropriated assets.

But the Canadian premier refrained in his speech from directly urging Mr Castro to introduce democratic reforms. He preferred the more diplomatic formula of saying "we must all adapt [to] the winds of change ... blowing through our hemisphere".

Mr Castro saw no need for such diplomatic niceties. In vitriolic terms, he blasted the US economic embargo against Cuba as "a crime" and "a genocide", branding its perpetrators as "war criminals".

He also rejected as "infamous manipulations and slanders" a recent US attempt – co-sponsored by Canada – to censure Cuba at the United Nations Human Rights Commission in Geneva for persistent rights violations. In a diplomatic setback for Washington, the US censure resolution was defeated last week by 19 votes to 16.

Sakakibara reprimanded for accepting lavish entertainment

By Gillian Tett in Tokyo

Eisuke Sakakibara, Japan's top financial diplomat, was yesterday reprimanded for having accepted lavish entertainment from the private sector.

Mr Sakakibara, vice-minister of finance for international affairs, handed back part of his salary voluntarily as an apology. There was no indication that he might lose his job.

The Ministry of Finance said yesterday that 44 of its officials would receive severe reprimands for similar wrongdoing, with 17 of them being forced to take pay cuts. Another 14, including Mr Sakakibara, will receive warnings and another 89 lighter reprimands. One official was suspended from duties and two resigned.

These punishments highlight the humiliation the once proud ministry has suffered in recent months as a result of corruption scandals. Two of its officials have hanged themselves.

The punishments have been imposed by the ministry itself following an internal investigation, partly in a bid to rebuild its public image. "We want to make this the turning point to rebuild the ministry and restore confidence in it," Hikaru Matsunaga, finance minister, said in a statement.

The ministry may also be trying to stave off political pressure for further arrests of its officials.

It launched an internal probe last month into the conduct of 1,060 staff members after the arrest of four officials alleged to have been wined and dined to excess by private sector banks and brokers in exchange for providing "favours", such as information on banking inspections.

Lavish business-related entertainment has traditionally been endemic in Japan. A Bank of Japan official has been arrested over similar allegations and the Bank has also reprimanded a number of its staff.

Most of the salary reductions will be between 10 and 20 per cent for a month. Top officials usually earn about Y20m ($153,800) a year.

Mr Sakakibara's salary will be cut by 20 per cent for one month. He had allegedly been "excessively" entertained 20 times by the private sector.

Hikaru Matsunaga, the finance minister, will undergo a similar salary cut. He was appointed in January after the former finance minister was forced out over the scandal.

The most criticism was levelled at Atsushi Nagano, the director general of the securities bureau, one of the two senior officials who resigned.

These reprimands come amid signs that the scandals of the last year may now be drawing to an end. One government official said yesterday that the reprimands were "probably the last chapter. I think things are almost over now".

Investors unimpressed, page 6
Foreign rice, page 5

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Survey

Indonesian students in Medan demonstrating against President Suharto scatter as security forces fire tear gas and spray yellow dye. Page 6

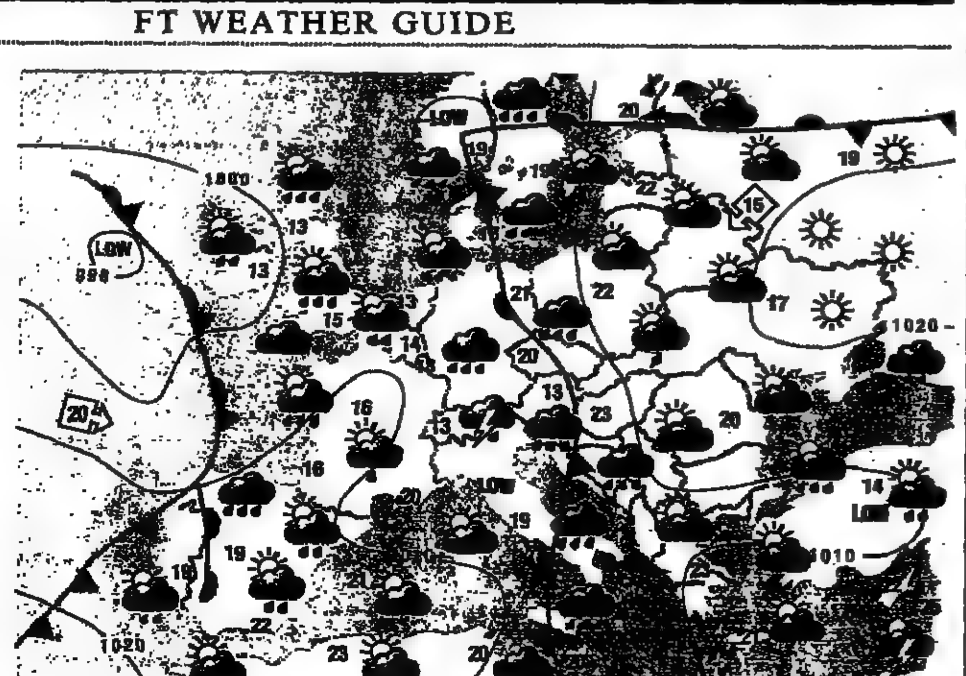
FT WEATHER GUIDE

Europe today

The Balkans, Italy, Switzerland *and Germany are likely to have* heavy rain. Thunderstorms are *possible over northern Italy.* Western Europe will be unsettled, *with bright or sunny intervals* interspersed with showers. West *of the Iberian peninsula, there will* be heavier cloud and rain later. *Most of eastern Europe will be* dry and sunny, and it will be *notably warm across the Baltic* states, western Russia and eastern Scandinavia.

Five-day forecast

Western Europe and the Iberian *peninsula will be unsettled with* widespread showers or longer *periods of rain. Thunderstorms* are possible in southern parts *later. Pressure will build over* Greece and the eastern Mediterranean, bringing mostly sunny skies. Eastern Europe and eastern Scandinavia will remain fine and warm.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	38
Accra	Fair	32
Algiers	Fair	23
Amsterdam	Shower	13
Athens	Fair	23
Atlanta	Shower	15
B. Aires	Shower	19
B.ham	Shower	14
Bangkok	Shower	38
Barcelona	Fair	19
Beijing	Rain	19
Belfast	Shower	12
Belgrade	Fair	24
Berlin	Rain	21
Bermuda	Shower	22
Bogota	Fair	21
Bombay	Fair	33
Brussels	Shower	14
Budapest	Fair	23
C.hagen	Shower	13
Cairo	Sun	27
Caracas	Fair	31
Cardiff	Shower	13
Casablanca	Fair	21
Chicago	Sun	19
Cologne	Shower	14
Dakar	Sun	29
Dallas	Fair	17
Delhi	Sun	37
Dubai	Sun	35
Dublin	Shower	13
Dubrovnik	Fair	20
Edinburgh	Shower	13
Faro	Fair	21
Frankfurt	Rain	14
Geneva	Shower	13
Gibraltar	Shower	22
Glasgow	Shower	13
Hamburg	Rain	15
Helsinki	Fair	20
Hong Kong	Thunder	29
Honolulu	Fair	28
Istanbul	Shower	16
Jakarta	Fair	33
Jersey	Fair	14
Johannesburg	Sun	25
Karachi	Sun	34
Kuwait	Fair	38
L. Angeles	Fair	23
Las Palmas	Fair	25
Lima	Fair	28
Lisbon	Shower	19
London	Fair	15
Lux.bourg	Shower	13
Lyon	Thunder	14
Madeira	Fair	22
Madrid	Shower	19
Majorca	Fair	21
Malta	Shower	20
Manchester	Shower	14
Manila	Fair	33
Melbourne	Fair	20
Mexico City	Sun	28
Miami	Fair	28
Milan	Thunder	16
Montreal	Fair	14
Moscow	Sun	19
Munich	Rain	13
Nairobi	Fair	27
Naples	Rain	19
Nassau	Fair	27
New York	Fair	18
Nice	Fair	20
Nicosia	Thunder	22
Oslo	Rain	14
Paris	Shower	16
Perth	Fair	23
Prague	Shower	20
Rangoon	Sun	39
Reykjavik	Fair	5
Rio	Fair	27
Rome	Shower	19
S. Frsco	Sun	28
Seoul	Sun	25
Singapore	Thunder	34
Stockholm	Fair	19
Strasbourg	Thunder	13
Sydney	Fair	23
Tangier	Shower	22
Tel Aviv	Sun	25
Tokyo	Fair	23
Toronto	Sun	15
Vancouver	Fair	19
Venice	Thunder	18
Vienna	Rain	13
Warsaw	Fair	22
Washington	Fair	18
Wellington	Fair	19
Winnipeg	Fair	28
Zurich	Shower	14

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

New plant saps Tulip's strength
Tulip Computers' investment in its new plant in the Dutch city of Den Bosch – and in the Commodore brand that was to take it into the home-use sector – sapped its financial strength. The company was granted protection from its creditors last Friday, marking the failure of its expansion programme and inability to attract a partner. Page 21

D-Mark stays ahead as dollar drops
The D-Mark was currency of the day, as the dollar was hit by falling US asset markets and the yen by the usual gloom over Japan. Greece denied the drachma would be devalued before this weekend's European Union summit in Brussels. Page 31

Borjomi fights to protect good name

Borjomi, Russia's best-known mineral water, was used in the Soviet Union as a cure for hangovers, aches and pains. Georgian Glass and Mineral Water, the company with the rights to its name, is fighting against imitations. GGMW, a joint venture with a Georgian banking group and Dutch and French investors, hopes to beat the competition by introducing a bottle with a screw top that is difficult to reproduce. Page 32

Issue planned for euro investors
Slovenia plans to issue a Ecu400m-Ecu500m eurobond next month aimed at investors in the new euro currency. The bond will be launched in Ecus but will be transformed into euros with the first interest payments being made in the European currency, to be launched in January. Page 26

Milan plunges 6.4% on selling
Shares in Milan plunged 6.4 per cent as Italian retail investors rushed to sell. The Mibtel index closed down 1,498 at 21,841, its biggest one-day fall since 1994. Page 42

Lion Nathan's attraction lies in China
New Zealand brewer Lion Nathan's position as the only foreign brewer with stand-alone operations in China – in the form of a large new brewery – was the main attraction for Japan's Kirin Brewery which is buying a 45 per cent stake in the New Zealand group. Page 23

Dar es Salaam euphoria fading
The euphoria that greeted the opening two weeks ago of the Dar es Salaam stock market in Tanzania is fading. The market trades for one hour every Wednesday; there is only one listing on the bourse. Investors are disappointed at the country's refusal to embrace foreign investment. Page 42

Selling hits São Paulo stock market
São Paulo fell steeply over worries about rising US interest rates. Volume was thin and although the selling was described as relatively light, it cut a swathe through leading stocks. Page 42

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MARKET STATISTICS

SAN FRANCISCO AND NEW YORK BUILDINGS AMONG LANDMARK PROPERTY TARGETED BY REAL ESTATE INVESTMENT TRUSTS

Record price tags on prestige US offices

By Richard Waters in New York

Landmark office buildings in San Francisco and New York are close to being sold in transactions expected to set new benchmarks for property deals on each coast.

In San Francisco, sale of the Embarcadero Center is expected to be announced before the end of this week. At more than $1.1bn, or $300 per sq ft, the sale of one of the city's most prominent office developments would set a new record for the west coast.

In New York, would-be buyers are due to submit bids for the General Motors building, a 1.8m sq ft tower on Fifth Avenue. The banks handling the sale, Morgan Stanley Dean Witter and Lazard Freres, are said to be asking about $500 per sq ft – roughly equal to the highest prices paid for large office buildings in Manhattan.

The two developments are the latest in a string of trophy buildings to come up for sale in the US in the past three years. Others have included the Sears Tower in Chicago, the Rockefeller Center and Chrysler Building in Manhattan and the Prudential Center in Boston. Such buildings were once fought over by Japanese financial institutions, helping to drive up prices in the 1980s. They have now attracted the interest of a new generation of US property companies, known as real estate investment trusts, or reits, whose stocks have been among the best-performing on Wall Street since the mid-1990s.

The auction of the Embarcadero Center is believed to have come down to a fight among three of the biggest reits – Equity Office Property Trust, controlled by Chicago entrepreneur Sam Zell, Boston Properties, controlled by New York investor Mort Zuckerman, and Cornerstone Properties, a company formed from the US real estate portfolio of Deutsche Bank.

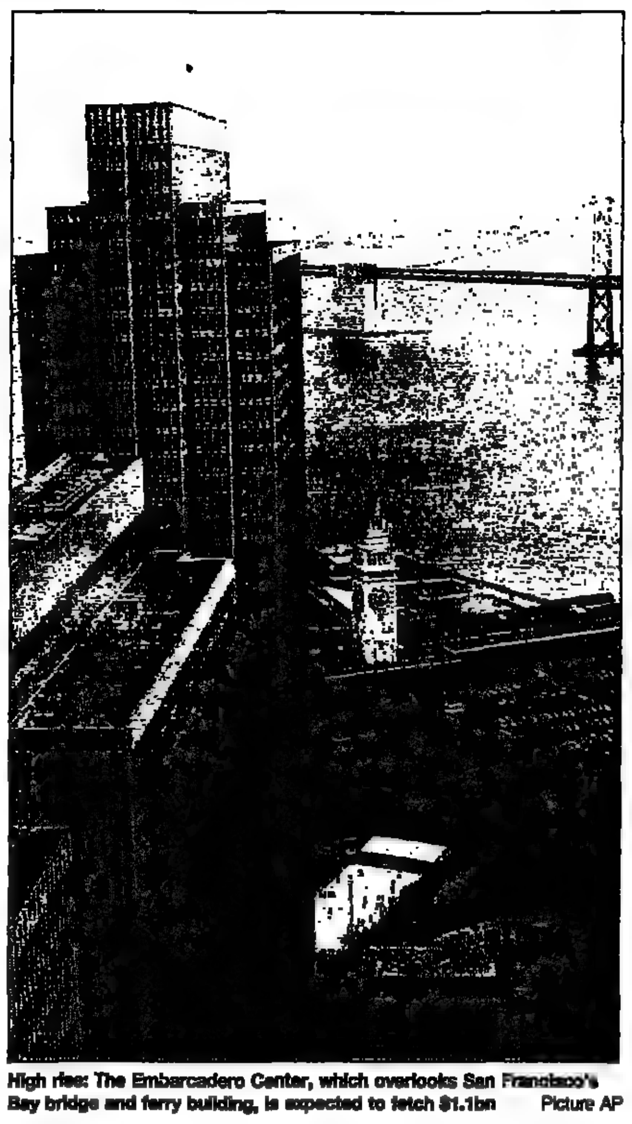
John Moody, chairman of Cornerstone, said the expected sale price, though high, would still be lower than the replacement cost of the building. Also the geographic constraints on building in cities such as San Francisco put a high premium on prestige sites.

On the escalation in prices, Mr Moody said: "Sure I liked [the Embarcadero] better two years ago, when it would have been more like $200 per sq ft – but, then, I liked [the price of] Microsoft better two years ago as well."

The latest sale prices echo the rebound in many of the biggest US central business districts since the downturn of the early 1990s. On the rent rises in Manhattan, Bruce Mosler, an executive director at Cushman & Wakefield, a New York real estate firm, said: "Midtown rates are at levels they last hit in the 1980s, and the market is very strong."

San Francisco and Boston are frequently listed in real estate circles as the hottest central business districts in the US. With little new construction and low vacancy rates, rents have risen quickly. New York is close behind although its fortunes are closely tied to the health of the US financial markets. "The question is, how long will Wall Street continue to do this well?" said Mr Mosler.

The Embarcadero is jointly owned by Prudential, the US insurance group, which has sold a large part of its direct real estate holdings, and David Rockefeller, whose family has sold the controlling interest in the New York centre that bears its name. The GM building is being sold by Simon DeBartolo, a reit specialising in retail properties. It acquired the New York landmark in a portfolio of mall developments it bought last year.



High rise: The Embarcadero Center, which overlooks San Francisco's Bay bridge and ferry building, is expected to fetch $1.1bn Picture AP

Japanese companies to offer multimedia on the road

By Michiyo Nakamoto in Tokyo

Japanese car owners will shortly be able to subscribe to an in-car multimedia service that offers video, music, internet and navigation systems.

Three Japanese companies, Toshiba, Toyota and Fujitsu, have joined together to set up Nihon Mobile Broadcasting Corporation, which plans to start nationwide broadcasts of multi-channel programming and information by 2001.

Drivers and passengers in vehicles will be able to navigate, watch video, listen to CD-quality music and tap into the internet by subscribing to NMBC's multichannel services.

Although there are likely to be safety issues to be overcome, the companies are forecasting 2m subscribers by 2003 and 10m in 2010. In-car TVs are relatively common in Japan while navigation systems are a large and growing market. The 2.5m units already installed are forecast to rise to 6m in 2000.

The venture represents an attempt by the companies to expand the multimedia market to the 70m vehicles on the road in Japan. In particular, Toyota, Japan's largest carmaker, has said it intends to build up its information technology interests to make up for slowing growth in its car market. It has already been providing information services to users of its car navigation system.

Fujitsu and Toshiba, two of Japan's leading information and communications technology companies, will provide expertise in developing the semiconductor technology and infrastructure needed to broadcast the new services.

The new company will use the S-band frequency, which allows aerials to be more compact than those of home systems. Code-division multiplex technology will be used to enable moving vehicles to receive signals broadcast by satellite. The service is expected to offer between 30 and 80 channels of video and audio.

The system is expected to be used as part of an intelligent transport system including computerised toll payments.

The terminal is expected to cost Y150,000-Y200,000 ($1,150-$1,500), but subscription fees have yet to be determined.

'Quiet' European markets hit JP Morgan revenues

By Simon Kuper in London

J.P. Morgan was the only major US foreign exchange bank not to raise revenues sharply in the first quarter of this year, following a strong 1997.

The investment bank reported a 23 per cent fall in currencies trading revenues to $92m ($119m) compared with the first quarter of last year. Including interest income, revenues fell 46 per cent to $65m ($120m).

The decline will raise doubts about J.P. Morgan's ability to remain in the top tier of foreign exchange banking. In February, the bank announced it was reducing staff by 5 per cent, saying spending had grown faster than revenues in three of the last four years.

The bank's quarterly earnings statement said the fall in foreign exchange revenues reflected "lower client demand". Thorkild Juncker, who took over as head of foreign exchange and commodities in January, blamed "exceptionally quiet" European markets ahead of the start of monetary union. The European calm had hit J.P. Morgan hard because the bank had 30 per cent market shares in currencies such as the lira and peseta, Mr Juncker said.

Other banks attributed their currencies revenue growth to fairly volatile markets and strong client interest. Guy Whittaker, head of foreign exchange at Citibank, the traditional market leader, said: "We saw some pretty dramatic growth in US customer activity."

US savings funds were investing more abroad, while American companies were increasingly hedging foreign earnings to protect themselves against rises in the dollar, strong since 1995.

The biggest gainers among the leading banks were Chase and Bank of America. The latter leapfrogged J.P. Morgan, reporting a 72 per cent rise in first-quarter revenues to $158m ($92m). Bank of America attributed the increase to volatile Asian markets and increased hedging by US clients. The bank expects its merger with NationsBank to raise currencies revenues further.

Chase, the second biggest US bank in foreign exchange, narrowed the gap with Citibank. Chase increased currencies trading and net interest income by 70 per cent to $288m ($169m), while Citibank managed an 18 per cent increase to $349m ($297m).

The figures were compiled by FX Week, the trade magazine, from banks' quarterly reports.

Ulcer drug lifts Astra profits 14%

Merger talk and research on the rise as Losec patent deadlines loom

By Greg McIvor in Stockholm

Astra, the Swedish pharmaceuticals group, yesterday reported a 14 per cent rise in first-quarter profits, driven by strong sales of its anti-ulcer agent, Losec, the world's top-selling prescription drug.

The company, which is set to be a factor in consolidation of the sector, said pre-tax profits advanced to SKr3.94bn ($511m) from SKr3.46bn.

The figures, in line with market expectations, were buoyed by a 29 per cent increase in sales of Losec, from SKr4.8bn to SKr6.2bn.

Liquid assets grew from SKr20.7bn to SKr27.2bn. Many analysts believe the funds will be used for acquisitions to bolster Astra's status as a leading global drug maker.

Astra last month expressed interest in merging with a large international drugs group, and Hakan Mogren, chief executive, identified as potential suitors Zeneca of the UK, Schering-Plough of the US and the drugs operations of Germany's Bayer.

Yesterday a senior company official said "a number of concrete projects" were under discussion, including acquisitions of companies and research technologies. "We do not exclude any alternative at this stage," the official said.

Astra is eager to reduce its dependence on Losec, which represents just over half its turnover, before the drug's patents start to expire early next century. Losec will lose its US patents in 2001; others run out between 2005 and 2006.

Losec fared well in the first quarter in the US, where it is sold through a joint venture with Merck. US sales surged 42 per cent, although Astra said part of the increase stemmed from inventory build-up.

Spending on research and development jumped from SKr1.9bn to SKr2.4bn, equivalent to 19.5 per cent of sales, reflecting Astra's quest to broaden its product line.

The urgency of this task has been amplified in the US, where the battle for Losec's patent rights is already hotting up. Andrx, a Florida-based group, said last week it had received approval from the US Food and Drug Administration for a generic form of Losec.

Astra group sales rose from SKr10.1bn to SKr12.1bn. Earnings per share climbed from SKr1.52 to SKr1.70.

Analysts were broadly satisfied with the results, although some said margins were somewhat thinner than expected.

This reflected a sharp increase in operating costs, partly due to higher marketing and distribution expenses for new products. Operating expenditure rose from SKr6.8bn to SKr8.4bn.

James McKean, European pharmaceuticals analyst at Morgan Stanley in London, said Astra had not demonstrated it could maintain its pace of earnings growth after expiry of Losec's patents.

"I just don't see any reason to buy the stock," he said.

He said the shares, on a forward multiple of 22 for 1998, were trading at a 10-15 per cent discount to the sector. Astra's most-traded A shares eased SKr2 to SKr157 in Stockholm.

World stocks, Page 42

Siebe aims for top slot with agreed bid for Eurotherm

By Andrew Edgecliffe-Johnson in London

Siebe, the UK engineering group, yesterday moved to become the world leader in process automation, making a £421m ($703m) agreed bid for Eurotherm, the UK-based temperature controls and drives group.

The cash and shares bid – Siebe's third acquisition in two months – would see it overtake Honeywell of the US as the largest process automation group, with a 15 per cent share of a £12bn market.

Allen Yurko, Siebe's chief executive, said: "Our vision has been to transform Siebe from a classic engineering company into a controls and instrumentation supplier."

The deal, which includes 140p in cash and just over 0.23 new Siebe shares for every Eurotherm share, values Siebe's target at 442½p per share.

Eurotherm's shares, which had fallen two-thirds behind the market in two years, jumped by 95½p to 445p. Analysts would not rule out a rival bid, as Eurotherm is understood to have been close to agreeing a takeover by a US group only last week.

Shares in Siebe fell from £13.80 to £13.03 as some analysts questioned whether it was taking on too many deals. They also queried the price – 18 times Eurotherm's expected earnings for 1998, and 1.8 times expected sales.

Mr Yurko said the deal would enhance Siebe's earnings in the year to April 1999. Claes Hultman, Eurotherm's chief executive, said Eurotherm could double its annual growth rate within 18 months, to 10-12 per cent.

Eurotherm had been held back by having limited access to distribution in the US and Asia, he said. But it could now benefit from selling through Siebe's channels, and from cost savings expected to be in the order of £10m-£15m.

The deal ends a turbulent period for Eurotherm. Jack Leonard, its former chairman, attempted to oust Mr Hultman in 1995, but Mr Hultman was reinstated after protests from institutional shareholders including Mercury Asset Management and Prudential.

Mr Hultman said he had been speaking to Siebe about a possible deal for over three years. Eurotherm's profits had been hard-hit by the strong pound, he added, as 39 per cent of its sales were into continental Europe.

Mr Yurko said the part-shares offer would allow Siebe to keep gearing in the 50-70 per cent range and interest cover above six times. This structure would also allow it to pursue other "clip-on" acquisitions.

The deal came as Siebe filed court petitions in Tokyo, alleging misconduct by Rikihiro Madarame, the chairman of its Japanese joint venture, Nemic-Lambda. A preliminary investigation has "revealed sufficient unacceptable conduct in possible violation of both Japanese law and the worldwide code of legal and ethical business conduct of Siebe for the directors to recommend Mr Madarame's resignation," the company said.

Comment, Page 24

BANKING CHAIRMAN CLAIMS REPORTS OF VETO FOR RESCUE PLAN CAUSED RUN ON DEPOSITS

Crédit Lyonnais chief hits at Brussels

By Andrew Jack in Paris

The head of Crédit Lyonnais yesterday raised the stakes in negotiations between France and the European Commission over the rescue plan for the bank, saying that comments by Brussels last week had cost it up to FFr1bn ($166m) in deposits.

Jean Peyrelevade, the chairman appointed by the French government to clean up the bank in 1993, said a "very painful" FFr500m-FFr1bn had been withdrawn following reports last Tuesday that the Commission had threatened to veto a new rescue plan, which would drive Crédit Lyonnais into bankruptcy.

The comments – attributed to an official in the office of Karel Van Miert, the competition commissioner – drove down the price of Crédit Lyonnais' non-voting shares and provoked a strong reaction from senior French politicians.

Mr Peyrelevade said in an interview in Le Monde yesterday: "What would the world say if a high public authority like the IMF caused the bankruptcy of the Japanese banks, which have or will receive more state aid than Crédit Lyonnais?"

He argued that by the end of this year – contrary to claims by Brussels officials – Crédit Lyonnais would have more than met its obligations under the original 1995 rescue plan to reduce its commercial presence in Europe by more than half by 1998.

Mr Peyrelevade questioned estimates of up to FFr190bn for the cost of saving Crédit Lyonnais, arguing that the figure included losses incurred as a result of the sale of assets once held by the bank but which are now controlled by a separate state-controlled agency.

The calculations made by Brussels were also at least FFr60bn too high because they were based on the projected value of final losses, he said, and not current values.

He stressed that Crédit Lyonnais was only seeking to neutralise the effects of a penalising loan it is forced to make under the 1995 rescue until 2000, cutting the value of additional state aid by FFr6bn.

The public outbursts by officials involved in the negotiations started early this month, when Mr Van Miert set an ultimatum for the French government and told them to respond to its questions by the end of April or risk having the aid blocked.

He went on to call "illegal" the 1997 accounts published by Crédit Lyonnais because they had been adjusted to take into account the new rescue plan, ahead of its approval.

The Commission is now expected to meet to discuss the plan in mid-May.

Retevisión to bid for Spanish cellular licence

By Tom Burns in Madrid

Retevisión, the new Spanish fixed telephony operator controlled by Telecom Italia and the domestic power group Endesa, will enter a last-minute bid to compete with France Telecom for Spain's third cellular phone licence.

The licence is the last to be awarded by Madrid before the telecommunications market is fully liberalised at the end of this year.

France Telecom is bidding through a consortium known as Lince which is backed by Deutsche Telekom and Sprint of the US, its partners in the Global One telecoms alliance.

The bids will be entered on Thursday and the outcome will be decided in late June.

Retevisión was forced to bid after it failed to forge an alliance with Airtel, which controls 28 per cent of Spain's cellphone market.

The attempt to link the two groups was blocked by a surprise shareholder agreement masterminded by British Telecommunications and AirTouch of the US, which control 37.5 per cent of Airtel between them.

BT and AirTouch secured the backing of sufficient Airtel minority shareholders last week to guarantee the cellular operator's independence from Retevisión.

The pre-emptive strike by the two operators derailed a carefully-crafted government strategy that backed the Airtel-Retevisión link-up to allow France Telecom a quick entry into the domestic market.

The French carrier was the loser in the tender for control of Retevisión, and its Lince consortium is the sole bidder for a third fixed telephony licence that the government is due to award next month. France Telecom was confident it would also obtain the cellular licence.

The government had hoped to establish both Telecom Italia and France Telecom as competitors to Telefónica, Spain's dominant telecoms group.

Hoechst will not be hurried

By Graham Bowley

Hoechst, the German chemicals and pharmaceuticals group, plans to complete its transformation into a life sciences company by 2000.

But the German group has given the strongest signal yet it will not cave into pressure to dispose hastily of its remaining industrial chemicals businesses.

"The [sale of] more difficult businesses – those are behind us. Having done all this, I am looking to resist time pressure. Pace is nothing in itself," said Jürgen Dormann, chief executive.

In an interview with the Financial Times, Mr Dormann said Hoechst would be prepared to call off talks with British Petroleum about the sale of its DM830m-a-year ($457m) polyethylene business unless a deal was struck soon.

His position signals growing impatience with the negotiations with BP and throws into doubt the sale, which industry observers had assumed was close.

"It will be signed in six months. We are negotiating with a number of parties, including BP," he said. Hoechst said if the deal was not signed with BP within six months it would be with another party.

Mr Dormann has come under intense pressure from investors to accelerate the planned spin-offs, part of an ambitious strategy to transform Hoechst into a life sciences company. The industrial chemicals activities have annual sales of more than DM21bn.

But Mr Dormann said he was prepared for the time being to hold on to the remaining industrial chemicals businesses. These include gases group Messer and organic chemicals division Celanese, which he said were profitable and growing.

Hoechst Marion Roussel, the pharmaceuticals division which is Hoechst's main business, planned to introduce two new drugs a year to the market, Mr Dormann said.

This would result in annual revenue growth of 8 per cent to 10 per cent at the drugs division, he said. This growth rate would be below the historic average for the industry.

Investors have begun to doubt HMR's ability to lift profit margins to the company's target of 20 per cent by the end of 1999.

But Mr Dormann played down the importance of the 20 per cent target, emphasising instead the importance of HMR's drugs pipeline, which he insisted was improving. "The chances are higher that we meet it [than we do not meet it]. The pipeline is much more important," he said.

Last week Hoechst secured agreement to sell the remaining stake in its Trevira polyester business, part of its industrial chemicals division, to a US and Mexican investor group. This sale would be finalised within six months, Mr Dormann said.

The sale of Hoechst's European polyester fibres to Indonesian company Multikarsa would be completed within four weeks, he said. The sale had been held up by a deterioration of the buyer's finances following the Asian crisis.

Jürgen Dormann: 'pace is nothing in itself'

Reduced loan losses lift Handelsbanken

By Tim Burt in Stockholm

Svenska Handelsbanken, Sweden's largest bank, yesterday announced a 32 per cent rise in first quarter profits after solid growth in net interest income and reduced loan losses.

The bank, which last year acquired the mortgage lender Stadshypotek for SKr23bn ($3bn), said operating profits had risen from SKr1.73bn to SKr2.28bn.

Contributions from Stadshypotek helped lift net interest income from SKr2.59bn to SKr2.92bn, although net commission income fell slightly from SKr797m to SKr785m.

The cost of integrating the mortgage lender into Handelsbanken's operations, however, was blamed partly for pushing operating expenses up from SKr1.71bn to SKr2.08bn.

Arne Martensson, chief executive, said expenses had also risen following increased investment in information technology.

The enlarged bank, unveiling maiden first quarter profits following the Stadshypotek deal, said the bulk of its operating profits were generated in its network of 515 branches.

Branch-office operations reported profits of SKr1.65bn. Handelsbanken markets, by comparison, contributed SKr50m and asset management SKr53m.

Earnings per share rose from SKr5.62 to SKr7.54. Handelsbanken's most commonly traded A shares fell SKr8 to SKr365.

Shares in FöreningsSparbanken, by comparison, yesterday fell SKr19 to SKr248 after the Swedish bank announced an 8 per cent fall in net interest income and only a modest rise in first-quarter profits.

In the first three months of the year, FöreningsSparbanken reported operating profits up to SKr1.63bn, compared with SKr1.59bn in the same period of 1997.

The results – adjusted for last year's merger of Swedbank and Föreningsbanken – were achieved on reduced net interest income of SKr3.05bn, against a pro forma SKr3.32bn last time.

Reinhold Geijer, chief executive, blamed the decline in interest income on a lower return on securities portfolios and reduced deposit and lending volumes earnings following the sale of 135 branches.

Excluding merger-related costs, operating profits rose from SKr1.59bn to SKr1.8bn and earnings per share increased from SKr3.22 to SKr3.31.

Market falls a bonus for Tabacalera bidders

By Tom Burns

Daily falls on the Madrid stock market for the past week have provided a clear bonus to investors who bid for shares in Tabacalera, the Spanish tobacco group which completed its privatisation process yesterday.

Co-ordinators for the sale of the government's 52.3 per cent stake in the company were expected last night to set an issue price of Pta3,282, based on the average weighted price during yesterday's trading. The final price is well off the Pta3,840 maximum set for the issue at the start of last week.

Such a price would drag the value of the flotation down to Pta311bn ($2bn) from initial estimates of Pta342bn.

Analysts said the combination of strong demand for the stock and the unexpectedly low issue price was likely to ensure a steady after-market, with institutions buying up Tabacalera stock when shares begin trading today.

Tabacalera's shares yesterday fell 4.75 per cent against a 3.21 per cent fall on the general index, which represented the biggest drop on the Madrid market since October.

Since the start of the offer period two weeks ago, the value of the group's shares has fallen by 13.37 per cent.

In spite of the high value of Tabacalera's shares earlier in the month, the retail tranche, which represented 70 per cent of the total offer – a new benchmark for equity distribution to small savers in a Spanish privatisation – was 19 times oversubscribed.

Demand on the institutional tranche was 3.4 times the total offered.

Retail investors were awarded a 3 per cent discount on the issue price and they will earn a further 3 per cent cash bonus if they hold on to their shares over a 12-month period.

Yesterday's discount was, however, barely below Tabacalera's closing price of Pta3,205, and the narrow margin could prompt a flow of shares from small individual investors to institutions.

As a fully privatised company, Tabacalera will focus its business strategy on diversifying into the domestic distribution of small consumer goods and on building up cigar assets that it acquired in the US and Central America last year.

It also aims to raise earnings by increasing cigarette prices in Spain, which are low by European standards, and by cutting its labour force.

NEWS DIGEST

SWEDEN

Investor close to agreeing sale of Saab stake to BAe

Investor, the main investment vehicle of Sweden's Wallenberg business empire, was yesterday said to be negotiating final terms for the sale of a strategic stake in Saab, its military aircraft subsidiary, to British Aerospace.

Under the terms of the deal, currently being scrutinised by legal advisers for both companies, Investor and family trusts representing the Wallenbergs would retain 30 per cent of Saab, while a similar sized holding would be sold to BAe. The remaining 40 per cent is expected to be distributed to Investor shareholders as part of the company's flotation this summer.

The acquisition may be approved by BAe's board tomorrow, ahead of the company's annual general meeting. If Saab achieves its hoped-for valuation of SKr10bn ($1.3bn), BAe may invest more than SKr300m for a stake in the business.

Under the Swedish group's split structure of A and B shares, however, BAe would not hold a large proportion of Saab's influential voting rights. One official close to the negotiations said the deal had been structured to "give comfort to the Swedish government" over ultimate control of one of the country's leading defence manufacturers.

Tim Burt, Stockholm

CLOTHING

Benetton up 18% despite Asia

Benetton, the Italian clothing company, yesterday reported an 18 per cent rise in 1997 net profits in spite of the impact of the financial crisis in Asia on its sporting goods activities. Profits would have risen 33 per cent without the activities of Benetton Sportsystem, the sporting goods manufacturer which suffered a loss of L28bn ($15.8m) in the second half of last year, largely as a result of the Asian downturn.

Benetton acquired 57 per cent of the sporting goods group last July for L318bn. The company acquired the remaining 43 per cent in March from Edizione Holding, the Benetton non-quoted family holding. It said yesterday it had renegotiated a lower price of L198bn for this second stake, against the L248bn agreed last year, because of the unforeseen impact at the time of the Asian crisis on Benetton Sportsystem. Sales of ski equipment and boots have been particularly hard hit in Japan.

The Asian crisis also affected Benetton clothing sales, which were 11 per cent lower in the Asian markets last year. However, the impact was more limited for the clothing activities than for sporting goods because Asia accounts for only 15-17 per cent of Benetton's overall clothing sales.

Consolidated group sales last year rose 27 per cent to L3,637bn, while consolidated net profits rose from L245.7bn to L290bn. Excluding Benetton Sportsystem, group sales rose 7.6 per cent to L3,100bn, while net profits rose from L246bn to L327bn. The company increased its dividend from L500 to L525 a share. Benetton said the sporting goods activities were now undergoing extensive reorganisation and rationalisation. Paul Betts, Milan

EGYPT

Electronics group offers shares

Egypt's leading private sector electronics manufacturer hopes to raise E£156m ($46m) in an important step reflecting interest among family-owned companies to dilute shareholdings to finance expansion and debt repayment. International Electronics, largely owned by the Baghat family, will next month float 27 per cent of its shares on the Egyptian Stock Exchange in a sale to be handled by Cairo brokers Intercapital Securities in conjunction with ING Barings. Shares will be offered at E£53 each, an 8 per cent discount to the market price.

Mark Huband, Cairo

NASDAQ

German investors targeted

Nasdaq, the technology-dominated US stock market, is to spearhead its launch into the continental European market with a campaign aimed at Germany's private investors. The world's second-largest stock market announced the $13m advertising campaign yesterday as it unveiled the results of a UK awareness campaign launched eight months ago and a customised national website.

Maggie Kelly, vice-president of Nasdaq International, said the research had found a 20 per cent increase in awareness about what Nasdaq did among the wealthy managers and executives targeted by the campaign. "We have been extremely happy about the response in the UK and the feedback we have got from private investors," she said. "So now we are ready to launch further afield."

Nasdaq has been reluctant to provide sales targets for the European market. About 18 per cent of investments in Nasdaq come from non-US investors, with most of this derived from institutions. Jane Martinson

San Paolo-IMI merger wins formal approval

By Paul Betts in Milan

Italy's bank consolidation moved up a gear yesterday with formal approval for the merger of Istituto San Paolo di Torino, the country's biggest commercial bank, and IMI, the Rome-based banking group.

The merger, approved by the boards of both banks, will create the country's largest banking group, holding total assets of L350,000bn ($197bn), and will involve a share exchange of 1.045 San Paolo shares for one IMI share. Once this is completed, San Paolo's existing shareholders will hold 55.3 per cent of the new group, with IMI shareholders owning 44.7 per cent.

The two banks agreed to name the new combined credit institute San Paolo-IMI, to be headquartered in Turin. Luigi Arcuti, IMI's chairman and a former San Paolo managing director, is to become chairman of the enlarged group, beating Gianni Zandano, the current San Paolo chairman, to the job after a tough contest.

Under the strategic plan drawn up by the two banks, the new group will have two principal divisions – one focusing on retail-middle market and large corporate activities, the other on merchant banking. Other activities, such as personal financial services, investment banking and public works, will form separate business units.

The plan is to achieve a consolidated return on equity of 15 per cent by 2000. The two banks said they planned to spin off their property assets, valued at about L2,500bn, into a separate company to improve returns.

The San Paolo-IMI merger has accelerated the pace of consolidation in the banking industry, following the recently announced merger of Credito Italiano with a group of leading north Italian savings banks.

Credito Italiano, whose proposed merger with Unicredito has won widespread praise, reported yesterday at its shareholders' meeting a 70 per cent rise in first-quarter gross operating profits to L468bn compared with the first quarter of 1997.

Both the San Paolo-IMI and Credito Italiano-Unicredito deals are now putting pressure on Banca Commerciale Italiana, Credito Italiano's traditional Milan rival, to find a partner.

However, Luigi Fausti, BCI chairman, told shareholders yesterday BCI was not looking for "prey", despite having a war chest of L4,500bn. He said the bank wanted to grow "on the basis of effective synergies and cost-savings".

Speculation has increased in recent weeks that BCI could link with the recently privatised Banca di Roma in a deal orchestrated by Mediobanca, the Milan banking group which is itself seeking to carve out a new identity.

But BCI has so far appeared increasingly reluctant to consider linking with Banca di Roma and has so far focused on close relations with Assicurazioni Generali, Italy's leading insurer, whose main shareholders are Mediobanca and Lazard.

A further new banking concentration is expected to emerge around Banca Nazionale del Lavoro and Banco di Napoli as part of the privatisation this year of BNL.

BNL told Milan financial analysts yesterday that its new core of stable shareholders could be established by the end of June, to be followed by a public share offer in October.

PETROCHEMICALS INDIAN GROUP UPBEAT

Reliance rises 25% despite weak prices

By Krishna Guha in Bombay

Reliance Industries, India's biggest petrochemical company, yesterday shrugged off competition from south-east Asia with a 25 per cent increase in pre-tax profits for the year to March 31.

The rise from Rp13.7bn to Rp17.2bn ($433m) was driven by volume growth in the face of weak prices. Reliance's output jumped from 1.8m tonnes to 5.2m tonnes as its new complex at Hazira came on stream. Sales rose 54 per cent at Rp134bn.

Anil Ambani, managing director, said the results marked a "strong performance in possibly the most challenging times faced by the global petrochemical industry in the recent past".

Prices fell sharply in the second half as the Asian crisis raised fears of global oversupply and cut prices from producers in Thailand, Indonesia and South Korea.

Reliance reduced its prices further – maintaining a discount of 5 to 10 per cent below the landed cost of imports – to prevent rivals gaining a foothold in India. The company also persuaded India's government to impose anti-dumping duties.

Reliance believes the worst is over. "The challenges we faced in the last financial year were altogether more serious than those we are likely to face in 1998-99," said Mr Ambani.

He said there would be less "unfair competition" as crisis-hit producers ran out of stocks to sell at fire-sale prices and other Asian currencies rebounded to more realistic levels.

Margins remained stable at about 19 per cent, largely because of backward integration, including a new cracker plant, which enabled the company to profit from lower prices for raw materials such as naphtha.

Interest charges rose from Rp1.7bn to Rp5bn, while depreciation was up from Rp4.1bn to Rp6.7bn.

But while much of Indian industry faces stagnant demand, Reliance's market remains buoyant. Demand for polyester grew by almost 30 per cent last year in India, while the country's plastics market grew by 18 per cent.

"These are not industrial applications," said Alok Agarwal, Reliance treasurer. "We produce principally for the household sector which has been doing well."

Analysts agree that Reliance can continue its volume-driven strategy, but doubt its Asian woes are over yet. "That is surely optimistic," said Ajay Jindal, analyst as Caspian Securities. "East Asian producers have no choice but to export in order to repay debt."

New plant saps Tulip's limited financial strength

Inability to find partner and the failure of its expansion plans have Dutch PC maker heading for receivership, writes **Gordon Cramb**

Tulip Computers' new plant in the Dutch city Den Bosch can receive, build and ship an order within 24 hours.

Franz Hetzenauer, founder and chairman, said late last year: "I do not think around the world there is a factory with this degree of integration, but I am absolutely sure the competition is trying to match it."

The competition did not need to. Tulip's investment in the assembly facility – and in the Commodore brand that was to take it from the market for business PCs into the home-use sector – sapped its financial strength. The company was granted protection from its creditors by a Den Bosch court last Friday.

Receivership heralds the likely demise of Europe's last independent maker of own-brand PCs. It marks the failure of an expansion programme designed to secure critical mass in a fast consolidating market, and the inability to attract an industry partner.

Acer of Taiwan is one which knows Tulip well – it also has a manufacturing site in the cluster of information technology groups that has grown around the southern Dutch city. But Acer last week chose a bigger target, agreeing to take over the PC operations of Germany's Siemens Nixdorf.

Tulip received a bid approach from an undisclosed company in late 1996, but could not agree terms. That followed its rapid retreat from an attempt to push its own brand into the consumer PC market. The foray, using hardware adapted from what it produced for the office market, lasted only nine months.

Its products could not compete on cost, in part because their features included a built-in networking capability that few home users would want.

Instead, it last year bought the brand and much of the assets of Commodore, which in the early 1980s dominated the US market for home PCs. Commodore, now involved in a receivership for the third time in two years, still carries a high consumer recognition of its name.

Start-up problems at the factory lost Tulip clients, and it had to take write-offs on a two-year-old push into Asia. This left it with net losses that nearly trebled to Fl 27.5m ($13.6m) for 1997, on sales down 13 per cent to Fl 461.4m.

Annual capacity at the new plant is at least 1m units, although last year it shifted only 200,000. Their quality is rated highly in the industry, but on cost grounds Tulip recently abandoned a commitment to make most of its own motherboards, the component at the heart of the machine.

The group remained far from its modest goal of a 4 per cent share of the European market for business PCs. In the Netherlands, the government had backed it to the tune of Fl 40m, but tighter European Union requirements for tendering of public contracts meant it could not rely on state orders. Barely 20 per cent of its Dutch sales went to the public sector, compared with one-third for the country's IT industry as a whole.

Confidence ebbed last month when Mr Hetzenauer cut his stake in the company from 8 per cent to less than 5 per cent. Suppliers were said to be refusing credit.

To add to Tulip's problems, a tight Dutch labour market means the most highly-skilled among its 700 staff are likely to be snapped up by competitors. As all but 100 of them were sent home yesterday, Tulip said a deal had been found to maintain operations for several weeks.

However, unless a long-term partner is found soon, Tulip will be difficult to sell as a going concern.

Franz Hetzenauer: cut his stake last month to less than 6%

TIM appoints new top team

TIM, the Italian mobile telephone company 60 per cent controlled by Telecom Italia, yesterday appointed a new top management team as part of the continuing internal reorganisation at the country's former telephone monopoly, writes **Paul Betts in Milan.**

Vito Gamberale, former TIM chief executive, is to become chairman of the highly profitable mobile telephone company, relinquishing day-to-day control to Umberto de Julio, the new chief executive.

Mr Gamberale's move reflects his recent appointment as one of the three new managing directors of Telecom Italia under the reorganisation launched by Gian Mario Rossignolo, the privatised telecommunications group's new chairman.

At Telecom Italia, Mr Gamberale is in charge of fixed-line operations.

TIM also reported yesterday continued strong growth in the first quarter, with 852,000 additional subscribers bringing the total to 10.13m at the end of March 1998.

NEWS DIGEST

ENGINEERING

Acquisition helps Atlas Copco advance 20%

Atlas Copco, the diversified Swedish engineering group, yesterday reported sharply increased first-quarter profits following strong volume growth and a maiden contribution from Prime Service, the US equipment rental company bought last year for US$900m. The company – which manufactures compressors, construction and mining equipment and control products – saw pre-tax profits rise 20 per cent to SKr881m ($114.4m) in the quarter, against SKr735m last time. At the operating level, profits rose almost 40 per cent to SKr1.04bn, on sales ahead from SKr6.4bn to SKr8.12bn.

Giulio Mazzalupi, chief executive, said about one-third of the profit improvement was attributable to Prime Service, with the remainder fuelled by higher volumes and favourable currency movements. Although demand from industrial manufacturers is expected to strengthen, Mr Mazzalupi warned that orders from the mining and construction industries could slip.

Atlas Copco's most commonly traded A shares shed SKr5.50 to close at SKr218 amid concerns over the impact of Asia's economic turmoil and profit margins which shrank from 11.5 to 10.9 per cent. Earnings per share, nevertheless, rose from SKr2.40 to SKr3.09. **Tim Burt, Stockholm**

PAPER

Sappi reorganises

Sappi, the South African paper group which has been expanding its overseas operations since 1990 and plans to list in New York later this year, said yesterday it had integrated its various international fine paper operations into a single company called Sappi Fine Paper.

With its headquarters in London, the new Sappi subsidiary will have sales of about R20bn ($4bn). Its share of the market in coated woodfree papers – typically used in high-quality magazines, annual reports and art books – will be 26 per cent in the US, 22 per cent in Europe and 60 per cent in Africa.

Sappi Fine Paper is a merger of S. D. Warren in the US, KNP Leykam, Hannover Papier and Blackburn in Europe, and Sappi's South African operation.

Sappi shares fell more than 50 per cent last year as investors balked at the cost of the debt incurred on the international expansion trail. However, the shares have regained some ground in recent weeks as analysts reassessed their initial doubts about the company's strategy.
Victor Mallet, Johannesburg

POLISH DEVELOPMENT BANK

BRE front-runner for control

Poland's Export Development Bank (BRE), which is 49 per cent owned by Commerzbank of Germany, yesterday emerged as the front-runner to take control of the Polish Development Bank (PBR) after buying Citibank's 7 per cent share in the investment bank. The transaction leaves SE-Banken of Sweden, which last week confirmed it would make a rival bid for PBR, with the choice of opening negotiations with the bank's remaining shareholders.

Meanwhile, the chances for Germany's Bayerische Landesbank, the third bidder, of taking over PBR appear to have deteriorated because of delays by Poland's securities commission in issuing a permit. BRE's $97m offer for PBR, at 24.3 zlotys a share, expires next Monday. PBR's shares yesterday reached 28.8 zlotys, up 45 per cent on when BRE made its bid a month ago.
Christopher Bobinski, Warsaw

INSURANCE

Skandia doubles in quarter

Skandia, the Swedish insurer, said yesterday currency fluctuations had helped its first-quarter results, which showed a doubling of operating profits to SKr2.84bn ($369m). The market had expected a profit of SKr2.13bn at the operating level.

The company said its property and casualty segment suffered from fierce competition resulting in pressure on premiums. Sales of its US unit-linked operation AFS (Assurance & Financial Services) amounted to SKr14.68bn against SKr12.06bn a year ago, with total sales in the first quarter rising from SKr18.26bn to SKr20.69bn. Earnings per share rose from SKr7 to SKr18. After posting early gains, the shares closed down SKr20 at SKr543. **Agencies, Stockholm**

INDUSTRIAL PRODUCTS US GROUP AIMS TO GENERATE 60% OF REVENUES FROM NON-DOMESTIC MARKETS

Tyco to shift focus outside N America

By William Lewis in New York

Tyco International, the acquisitive US manufacturer and supplier of industrial products, is planning to step up its takeover programme in Europe, Asia and South America in an attempt to shift its revenue base away from North America.

The US-based company is also launching a marketing campaign to attract more UK and European shareholders. It wants one-third of its shareholders to be non-US institutions and individuals.

"Some of our businesses already have 60 per cent of their revenues from outside North America, and that model is the one we want to see in place for Tyco as a whole," said Dennis Kozlowski, chairman and chief executive, in an interview with the Financial Times.

"There are more business opportunities outside North America and we want to be the leading market player wherever we do business throughout the world."

Currently, about 40 per cent of Tyco's revenues derive from its businesses outside North America, and Mr Kozlowski said the company's goal over the next three years was to raise that to 60 per cent.

In the same time period he would like to see non-US institutions and individuals account for one-third of Tyco's shareholders. "It would not be a bad thing to have at least one-third of shareholders outside of the US. We need to educate the people who invest and we need to spend more time on the ground over there," he said.

To that end, Tyco has relocated Dave Brownell, a senior vice-president, to London. Through its acquisition of ADT, the electronic security systems group, Tyco has a listing on the London Stock Exchange, and plans to use that to attract new investors.

Tyco has achieved rapid growth in recent years, primarily in the US, through a series of acquisitions.

In 1997, purchases included: ADT; Keystone, a designer and manufacturer of industrial valves; and American Pipe & Tube, which makes steel pipe and tubing for fire protection markets. Earlier this month it announced it was acquiring the Wells Fargo Alarm business of Borg-Warner Security for $425m in cash.

Tyco concentrates on four business segments: disposable and speciality products, fire and security services, flow control and electrical and electronic components.

It forecasts that the increase in revenue growth outside North America will come mainly through acquisitions. Bonuses paid to Tyco executives are based partly on them identifying potential acquisition targets.

Biogen chairman faces legal action

By Victoria Griffith in Boston

Jim Vincent, chairman of Biogen, the biotechnology group, is re-learning an old childhood lesson: you can't take back what you've said. Legal proceedings began against Mr Vincent yesterday for nine words he uttered at an analysts' meeting four years ago. Asked how trials were going for the heart attack drug Hirulog, Mr Vincent responded: "What we've seen to date looks very good."

Later, the company, worried about chest pain associated with the drug, licensed the product to The Medicines Company, another biotech group. A class-action suit against the chairman is now taking him to task for allegedly withholding negative information about the side-effects of Hirulog.

While such lawsuits are common, it is unusual for cases to be taken to trial. "We told the truth," said Biogen. "This product was obviously not 'a dog', since the company that took it on has filed for approval from the Food & Drug Administration. It just didn't fit the profile of products we want to take to market."

Stockholder litigation is becoming a problem for biotech companies, which commonly lose large proportions of their market capitalisations following disappointment over drug trials.

Some 54 cases against companies have been filed over the past two years, according to the Biotechnology Industry Organisation, a trade association.

Being held accountable for every word they utter while continuing to be upbeat about pending research is a difficult balancing act for chief executives. "A lot of times they are asked to comment on things that are simply unknowable, like how a trial will end," said David Stone, a biotechnology analyst at Cowen & Co.

To reduce vulture lawsuits, the federal government passed a law two years ago that allows executives to make predictions about a company's performance, as long as the risks are made clear to shareholders.

But investors got round these rules by filing in state, rather than federal courts.

Harnischfeger warns of $100m additional charge

By Nikki Tait in Chicago

Cost overruns and possible accounting errors on a big contract for Asia Pulp & Paper in Indonesia have dealt a $150m blow to Harnischfeger, the Milwaukee-based heavy equipment manufacturer, and will force it to take an additional $100m charge in the second quarter.

The company said the overruns on four large turnkey projects in Java and Sumatra included the cost of equipment for its Beloit papermaking machinery arm, transportation and freight costs, and general delays.

It did not put all the blame on the recent economic turmoil in Indonesia for the cost excesses, but said that had added to the problems.

The contract with Asia Pulp & Paper, part of Indonesia's Sinar Mas group, is worth about $600m, compared with Beloit's sales of $1.2bn last year. The machinery was to be installed at four sites over several years, although two facilities are nearly complete.

Harnischfeger declined to elaborate on whether the "possible accounting errors" might result in legal action.

The company said the cumulative effect on Beloit was expected to be about $150m before tax, or $75m after tax and minority interests. As a result, it would increase a previously-announced second-quarter special charge by $100m.

Two months ago, the company announced it was taking a one-off charge of between $125m and $150m related to Beloit. This was to cover employment and plant investment cutbacks, and some addition to reserves for "non-restructuring-related" reasons.

Harnischfeger said it had ordered a "thorough review of Beloit's accounting and control functions".

"We are determined to take every action necessary to ensure nothing like this can ever occur again," said Jeffery Grade, chairman.

Jeffery Grade: 'thorough review' under way at Beloit

Cost-cuts help Abitibi recover to C$57m

By Edward Alden in Toronto

Abitibi-Consolidated, the Canadian group which is the world's largest newsprint producer, cut costs to achieve first-quarter earnings of C$57m (US$39.7m), rebounding from a loss of C$51m in the 1997 period.

The results were similar to the final quarter of 1997 and in line with analysts' expectations. Cost-cutting produced annualised savings of C$165m, near the target of C$200m by June 1999.

Net earnings for the three months ended March 31 were C$40m after extraordinary charges, or 21 cents a share, on gross sales of C$1.09bn. The group incurred expenses of C$4m in its failed bid to acquire Avenor, Canada's second largest newsprint producer, which was bought last month by Bowater.

Newsprint prices rose 4 per cent in the first three months of 1998, offsetting a slight fall in sales volumes from the previous quarter.

But Abitibi and other newsprint producers face a challenge trying to make stick a planned May 1 price rise of US$40 a tonne, in the light of the addition of 62,000 tonnes a month into the market when Fletcher Challenge Canada's three British Columbia mills are fully operational.

One analyst said Abitibi was likely to close some mill operations next month to remove about 30,000 tonnes of newsprint from the market and keep inventories down. This would normally be followed by similar shutdowns at Donohue and Bowater, the two other main Canadian producers.

Fletcher's mills, which can produce about 3 per cent of North American output, had been halted by a nine-month strike which ended last week. Abitibi is entering its own labour contract negotiations this month at its 20 mills in eastern Canada.

Fletcher's return will put some pressure on the industry to manage operating rates more effectively, said Mark Kennedy, an analyst with TD Securities.

Bank merger rules tested by BoNY 'bear hug'

Mellon's rejection of $24bn bid has put in question the logic behind recent consolidation, writes **John Authers**

Bank of New York and Mellon Bank, two of the most revered names in US banking, are testing new ground. Both the ground rules for pursuing a merger, and some of the principles that have underpinned the unprecedented consolidation of US commercial banks in recent weeks, have been called into question.

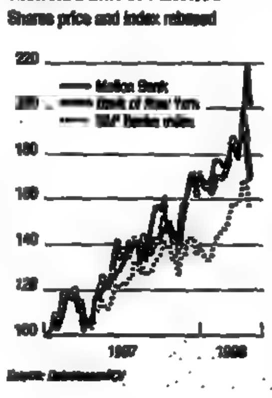
Last week, BoNY made an unsolicited proposal to buy Mellon for about $24bn. Controversy then centred on BoNY and its unorthodox use of a "bear hug" on Mellon, in which it publicised a takeover proposal for the bank without making a formal tender offer. Although the offer was unsolicited, it was not technically "hostile", so as to avoid falling foul of the strict banking laws in Pennsylvania, Mellon's home state.

Now, the focus has moved to Mellon's startlingly swift rejection of BoNY's offer. Within 24 hours of hearing of BoNY's bid it had launched a lawsuit, and over the weekend its directors voted unanimously to reject the bid. Frank Cahouet, Mellon chief executive, commented: "Bank of New York has said a number of times that the transaction will go forward only with the endorsement of Mellon's board of directors, so I guess that's the end of the issue."

BoNY's advisers pointed out that Mr Cahouet's initial outspoken rejection of the bid, and the subsequent lawsuit, must therefore have been made without formally consulting his board. Thomas Renyi, BoNY chief executive, also claimed that he had received "overwhelming support" from Mellon's institutional shareholders in the days since the proposal was announced.

Mellon/Bank of America

Share price and index rebased



The proposal will remain on the table for several weeks, while BoNY and its advisers continue to canvas Mellon shareholders.

Mr Cahouet has now attacked the cost cuts and execution risks involved in the merger. In the process he attacked the logic which has justified most of the consolidation in the industry over the last few years, which was brought to a new peak earlier this month with the $66.6bn acquisition of BankAmerica by NationsBank.

He said the $700m cuts proposed by Mr Renyi were "dramatically higher" than had been suggested when the friendly negotiations between the two banks ended last December. Furthermore, he said the two banks did not have as close a fit as BoNY claimed, even though both have made a move into fee-based businesses and away from traditional lending activities in recent years.

This means that both companies have comfortably outperformed the banking sector as a whole for the last few years. But Mellon, unlike BoNY, still has a large retail banking and consumer fund management business, and there is a close overlap, according to Mellon, only in a few businesses, such as custody, corporate banking, and systems.

According to Mellon, BoNY's cuts would be equivalent to more than 50 per cent of those businesses where the banks overlap, such as securities servicing. This would be "devastating".

Mr Cahouet says these differences were "fully recognised" in December last year, but others close to the negotiations claim the two banks failed to agree a merger in formal talks only because of Mr Cahouet's personal demands over the issue of the succession.

NEWS DIGEST

COMPUTER SOFTWARE

CA aims to expand in professional services

Computer Associates, the world's second largest software group, after Microsoft, is still determined to expand its professional services business through both organic growth and acquisitions despite the recent failure of its hostile bid for Computer Sciences. Speaking during the business software group's annual user convention in New Orleans, Charles Wang, CA chief executive, acknowledged that CA had "misread the situation" when it launched its takeover bid for CSC, the computer services group.

"There was no price they were willing to sell at," he said, "we had thought it was a matter of price. We have moved on since then so it is really a dead issue for us." Nevertheless he said CA, whose flagship product is its TNG Unicenter enterprise management suite, was still focused on building the services business because it needed people to rapidly deploy and implement Unicenter.

"We are going to build up services the same way we built our product business, through a combination of internal development and strategic acquisitions in different geographic areas, in consulting, value-added resellers and systems integration-type companies."

Mr Wang said CA had no immediate acquisitions planned, but added: "We are talking to a number of services-type companies."

Separately, CA confirmed that Microsoft had licensed part of TNG Unicenter, the "real world interface" component, for use with its next generation corporate operating system, Windows NT 5.0. "CA and Microsoft are working together to better enable the NT platform for management and scalability," said Sanjay Kumar, CA president. *Paul Taylor, New Orleans*

CINCINNATI BELL

Moody's considers downgrade

Moody's, the US ratings agency, yesterday said it was considering downgrading debt ratings of Cincinnati Bell after the US local telephone company announced plans to spin off its billing and customer management business to shareholders as a separate entity. The new company – to be called Convergys – will have annual revenues of about $1bn, and take in Cincinnati Bell's Matrixx Marketing and Cincinnati Bell Information Systems units, as well as the carrier's minority interest in a cellular joint venture – servicing parts of Ohio and Kentucky – with Chicago-based Ameritech. The long-term debt currently carries a Baa1 rating from Moody's.
Nikki Tait, Chicago

GOLDMINING

Newmont earnings fall

Newmont Mining, which – via its Newmont Gold subsidiary – is the largest goldmining company in the US, yesterday reported a drop in first-quarter earnings, from 24 to 20 cents a share due to the fall in gold prices. It made after-tax profits of $30.8m, down from $51.2m a year ago, with the Newmont Gold subsidiary turning in $32.8m, against $54.7m previously.

The reduction came despite sharply higher production, up 22 per cent at 1.03m ounces. Gold sales in the first quarter were 6 per cent higher at $378.1m, but the average realised gold price fell from $370 an ounce in the first quarter of 1997, to $324 an ounce in the latest period. Newmont's capital expenditures were also cut significantly, from $105.3m a year ago, to $58m in the latest quarter. The main expenditures went on its Nevada operations, a leach pad expansion at Minera Yanacocha in Peru, and the Batu Hijau project in Indonesia. The company said it was "on target" to produce between 3.8m and 4m ounces this year, with total cash costs estimated to come in at under $200 per ounce. **Nikki Tait**

ELECTRICITY SUPPLY

Texas Utilities flat

Texas Utilities, which is bidding £4.45bn ($7.4bn) for Energy Group, the UK's biggest electricity supplier, has reported flat first-quarter earnings. Diluted earnings for each common stock unit was static at 51 cents during the first three months, even though operating revenues increased from $1.49bn to $2.5bn. Consolidated net income rose from $114.8m to $126.6m.

Texas, which has bid 840p a share for Energy Group, is facing a rival offer of 820p a share from PacifiCorp, another US utility. Both companies were waiting yesterday to see whether the UK Takeover Panel could agree a process which would allow any further offers for Energy Group to be made in a "fair and orderly" manner. The regulator last week suspended the bid timetable to prevent an unseemly last-minute scramble when the deadline for counter-offers ran out on midnight on Sunday. Texas currently controls about 28 per cent of Energy Group's shares. **Andrew Taylor**

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BREWING JAPANESE GROUP PAYS NZ$1.33bn FOR CONTROLLING STAKE

Kirin buys 45% of Lion Nathan

By Gwen Robinson in Sydney

Shares in Lion Nathan fell yesterday after Kirin Brewery, Japan's largest brewer, spent NZ$1.33bn (US$745m) to acquire a controlling 45 per cent stake in the New Zealand-based brewer.

Kirin said the acquisition formed the world's fourth largest brewing alliance.

Analysts said the deal could result in a takeover battle as leading brewers, including Interbrew of Belgium and Anheuser Busch of the US, had expressed interest in a partial or full acquisition of the New Zealand brewer before the Kirin deal.

Kirin acquired the stake through the initial purchase of 15.6 per cent held by Doug Myers, the company's chairman, and several directors, and bidding in the New Zealand stock market for a further 29.4 per cent.

Lion Nathan shares closed at NZ$5, down 30 cents from Friday's close but 5 cents above Monday's intraday low, valuing the company at just under NZ$3bn. Lion Nathan accounts for 5.4 per cent of the NZSE-40 capital index, the market's main gauge, which fell 1.52 per cent to 2287.51 on the day.

Yasuhiro Sato, president of Kirin Brewery, said Kirin would consider increasing its stake in Lion Nathan, possibly to make the company a fully-owned subsidiary, but the New Zealand side would maintain management control for about the next three years.

Kirin's move follows months of speculation about a possible merger or takeover of Lion Nathan, which has 42 per cent of the Australian market and a 56 per cent share in New Zealand. The brewer's brands include Swan, Tooheys, XXXX and Steinlager.

Mr Myers, whose grandfather founded the company, had signalled his wish to unload most of his stake and retire within several years, analysts said.

Under an agreement with Kirin, Mr Myers will remain as chairman for three years and is expected to retain a stake worth NZ$250m.

On Friday, Lion Nathan announced a stronger than expected first half, with net profits rising 14.5 per cent to NZ$83m.

Lion Nathan is the only foreign brewer to be operating alone in China via a wholly-owned brewery in Suzhou – a factor that appealed to Kirin, which is involved in joint ventures in China where it has strong distribution networks.

Japanese group eyes Lion's share

NZ brewer has a strong position in China, write **Gwen Robinson** and **Bethan Hutton**

The most revealing clue to the motives behind the acquisition by Kirin Brewery, Japan's oldest and largest brewer, of a 45 per cent stake in Lion Nathan, the New Zealand brewer, lies in remarks earlier this year by Gordon Cairns, chief executive of Lion Nathan.

Enthusing about the rapid growth in China's beer consumption – which yesterday he quantified as "56 per cent of the absolute world beer volume growth in the last five years" – Mr Cairns warned there were too many international brewers in China. Rationalisation would take place, and the only survivors would be those to form alliances in brewing and distribution, he predicted.

Many leading international brewers have entered China through joint ventures, including Kirin and Fosters, Lion Nathan's main rival in Australasia. But it was Lion Nathan's position as the only foreign brewer with stand-alone operations, in the form of a large new brewery, which was the main attraction for Kirin.

Both companies said yesterday that joint expansion in China would be a priority. As well as Lion's own plant, it has an 80 per cent interest in a joint-venture brewery in Wuxi, while Kirin owns 80 per cent of Zhuhai Kirin President Brewing in China's Guangdong province.

It was the perfect marriage, as one analyst said.

However, some analysts in Tokyo greeted Kirin's move with scepticism. "Kirin is a highly domestic company, trying to find a way out of Japan with little experience," said Toshiko Binder, senior analyst at HSBC Securities in Tokyo.

Kirin is being squeezed in the Japanese beer market, which is stagnant or shrinking. The brewer is clinging to its title of Japan's largest brewer, but its position has been eroded over the past decade by the growth of Asahi Breweries. Asahi's Super Dry brand recently knocked Kirin's Lager Beer from its long-held slot as Japan's most popular beer.

With limited growth prospects in the domestic market, the battle between Kirin and Asahi has been extended overseas. Kirin has tie-ups in the US and Canada, but those mature markets offer limited opportunities. China, on the other hand, has huge potential for increasing sales of better-quality beer. Kirin already has one plant in China, but lags behind Asahi with its five breweries.

China is the obvious attraction of the Lion Nathan stake. The New Zealand brewer has expanded rapidly in China since it bought an existing brewery in 1995. But it is still trying to recoup its A$300m (US$195m) investment in its new Suzhou facility, which only began production this year. Its China operations lost NZ$11.4m (US$6.4m) in the six months to February and the company acknowledged it was talking with other brewers about producing their brands in China.

Yasuhiro Sato: two companies will form the world's fourth largest brewing alliance Reuters

Worldwide, the deal will link Kirin, which has more than 40 per cent of the Japanese beer market, with Lion's shares of 42 per cent of the Australian market and 56 per cent in New Zealand. The Kirin brand name will be joined by Lion Nathan's leading brands including Castlemaine XXXX, Swan, Tooheys, Steinlager and Lion Red.

Kirin said yesterday it might eventually take a controlling stake in Lion Nathan. But by keeping the stake under 50 per cent, Kirin would not be obliged to incorporate the whole of Lion Nathan's balance sheet – including its debts – into its own consolidated accounts, but could reap the benefit of the extra income.

Kirin's sales and profits have been falling steadily. Earnings per share have almost halved over the past three years from Y38 in 1995 to Y19.6 in 1997. However, Kirin has minimal debt and a substantial cash pile. The Lion Nathan stake should cost slightly less than it had planned to spend on buying back up to 100m of its own shares this year.

It is doubtful whether the two companies will emphasise cross-brand promotion in each other's markets. In Japan, the market for imported beer was shrinking, Naomichi Asano, Kirin managing director, said yesterday. But Kirin intended to "look at the opportunities" for Lion products in Japan and further afield.

Lion Nathan's recent restructuring programme has targeted Australia's premium beer market with a plan to introduce up to three new premium brands by the end of next year. Mr Cairns said yesterday the company might consider introducing Kirin beer as a premium brand.

The alliance's prospects for further expansion in Australasia depend largely on Lion's pursuit of this market, where growth is predicted nearly to double in the next five years, from a 3 per cent share of the total market.

PLN in call for higher tariffs

By Sander Thoenes in Jakarta

Perusahaan Listrik Negara, the state-owned Indonesian electricity monopoly, yesterday announced a full-year net loss of Rp579bn ($73m) and said it would lose at least 10 times that amount in the current year unless it was allowed to increase its rates and renegotiate payments to suppliers.

The Indonesian currency crisis, which has seen the rupiah fall more than 70 per cent against the US dollar, means PLN now pays more than three times as much for electricity as it receives from customers, according to Djiteng Marsudi, who heads the company.

Mr Djiteng said PLN – which buys gas from Arco and geothermal energy from Unocal, both of the US, as well as electricity from several private producers – would lose Rp6,000bn this year if the rupiah stayed below Rp6,000 to the dollar. This is optimistic given that PLN is buying dollars at the current exchange rate of about Rp8,000.

Mr Djiteng said the government had already put up Rp1,250bn to enable PLN to pay Arco and Unocal in the first three months of this year. In February, he said PLN would pay its suppliers at Rp2,450 to the dollar this year, compared with the current rate, but stiff opposition from Arco and others led PLN and the government to negotiate.

Mr Djiteng hoped an agreement with Arco and Unocal would be reached within weeks, whereas he had only just started talking to power producers. Kuntoro Mangkusubroto, head of the energy and mining ministry which oversees PLN, said last week he had proposed that PLN buy gas from Arco at a rate of Rp2,450 for the second quarter and at half the going rate in the third quarter. The difference would be paid later, with interest.

Arco would not comment, but analysts said its investments in Indonesia and plans for a natural gas field near Irian Jaya would persuade it to co-operate.

NEWS DIGEST

MOBILE PHONES

Total Access agrees deal with banks over debts

Total Access Communication, one of Thailand's largest mobile telephone network operators, said yesterday its main bank creditors had agreed to restructure some of the company's debts. The restructuring includes a rollover of a $200m syndicated loan originally due for repayment today. Total Access previously said that because of the devaluation of the baht, which makes foreign-currency-denominated debts more expensive, it would be unable to pay back this loan on time.

Many Thai companies are negotiating with creditors to restructure the maturities of their borrowings but have been reluctant to convert debt into equity. Negotiations are expected to accelerate because of a new bankruptcy law which increases pressure on errant debtors and gives creditors incentives to lend to struggling companies.

The deal with about 40 creditors allows Total Access to extend repayment of the loan over four to six years in exchange for paying a higher interest rate. Although the deal staves off default, it is expected to increase the company's financing costs by between 50 and 75 basis points, according to a report by brokerage ING Barings.

Total Access has nearly $1bn in foreign debts and continues to negotiate longer repayment terms for many of those debts. The company recorded foreign exchange losses of Bt22bn ($568m) in 1997.

ING Barings expects the company will seek new investors to recapitalise, possibly through a reduction in ownership of Total Access by United Communication Industry from its current holding of 71 per cent. **Ted Bardacke, Bangkok**

INTERNET PROVIDERS

Yahoo! Japan sales up 207%

Yahoo! Japan, the internet information provider which is a subsidiary of Softbank, yesterday announced strong growth in sales and profits for the year to March 31, thanks to a steady increase in internet users.

Yahoo!'s sales jumped 207 per cent to Y1.27bn, while pre-tax profit rose 184 per cent to Y131.8m and net profit increased 169 per cent to Y84.4m.

Although the demand for personal computers was sluggish because of the weakness of the Japanese economy, the internet advertisement market has continued to expand rapidly, the company said. Internet users in Japan rose to 9.7m by the end of March, from 7m a year ago. The internet advertisement market has also developed into a Y6bn ($45.8m) industry, much bigger than the projected Y4bn, according to an industry survey. **AP-DJ, Tokyo**

CHINA

CICC optimistic on expansion

China International Capital Corporation, the investment banking joint venture between China Construction Bank and Morgan Stanley Dean Witter, expects to continue its expansion despite Asia's financial crisis, officials said yesterday.

"Our business will continue to grow and we will see significant development in certain businesses this year," said Zhou Xiaochuan, whose appointment as chairman was announced yesterday. Mr Zhou is replacing Wang Qishan, who has been appointed executive vice-governor of Guangdong province.

CICC, the first joint venture investment bank in China, has established itself as a significant player in mainland-linked equity issues and is active in the Chinese government bond markets. Last year, it achieved pre-tax profits of $30m on revenues of $50m. **John Ridding, Hong Kong**

Provisions hit Indonesia's banks

By Sander Thoenes

Bank Lippo, Bank Niaga and a host of smaller Indonesian banks reported a sharp increase in provisions for bad loans yesterday, but one ratings agency said it feared that more than half of the outstanding loans may turn bad this year.

Bank Lippo, part of the Lippo Group, reported a 44 per cent rise in total interest income for 1997 to Rp2,043bn ($258m), but only a 1.4 per cent rise in net profit to Rp118.1bn. Provisions reached Rp249.114bn, up from Rp153.023bn last year.

Bank Niaga, controlled by the Djojohadikusomo family which also runs the Tirtamas conglomerate, reported a 54 per cent drop in 1997 net profit from Rp97.9bn to Rp44.6bn, in spite of a rise in interest income from Rp1,020bn to Rp1,398bn. Much of the drop was blamed on a tripling of provisions from Rp64.92bn to Rp207.1bn. Cumulative provisioning for loan write-offs was Rp224.9bn, compared with Rp88.5bn in 1996.

Many banks have collapsed under foreign debt and high interest rates and are kept afloat only by large loans by the central bank, which has also guaranteed their deposits.

Pefindo, the Indonesian ratings agency, warned last week that problem loans may account for 60 per cent of the banking industry's total loans by 1999 if the private debt issue is not resolved.

A sharp rise in interest income boosted net profits of Bank Duta from Rp45.465bn to Rp50.561bn; provisions more than tripled to Rp118.547bn. Bank Pikko's profits for 1997 more than doubled from Rp5.8bn to Rp12.5bn.

MEDIA EMI AND ADVENT INTERNATIONAL BOLSTER FINANCING AFTER BANKERS CANCEL $835M SYNDICATED LOAN

HMV Media finds buy-out backing

By Simon Davies

EMI, the music group, and Advent International, the venture capitalist, have put up more of their own capital to finance the buy-out of Dillons, HMV and Waterstone's after bankers refused to back a £500m ($835m) syndicated loan.

Merrill Lynch and SBC Warburg cancelled the syndicated loan to HMV Media, which is acquiring the three retail businesses, after other banks expressed concerns over the level of leverage, and its business plan.

HMV's gearing will be substantially reduced with the agreement to inject a further £50m of equity. About half the cash will come from EMI and Advent, which own 85 per cent of HMV Media, while the remainder will be raised from the placement of preference shares.

One US investment banker said: "By raising the equity account by so much, a lot of the other issues have become peripheral. But the real question is: has this deal become permanently tainted goods?"

A number of bankers said they would still be unwilling to back the transaction, but it is expected that Merrill and Warburg will be able to put together a core underwriting group of about half a dozen banks.

Under the new structure, the so-called term loan element has been reduced by £50m to £350m, with a further £100m to be raised from a revolving credit facility. HMV Media also launched a £200m junk bond issue yesterday, which will repay a bridging loan from EMI.

EMI and Advent could have insisted on retaining the original financial structure, even if Merrill had failed to find other backers, since the US investment bank was legally committed to providing the funding.

However, there would have been a risk that the junk bond issue might have flopped. HMV Media would have got a bad reception the next time it had attempted to raise money through capital markets.

The leveraged loan market has exploded this year, with more than $8bn of loans expected to close in the first half of the year, more than double the comparable figure for 1997. At the same time, the Japanese banks have almost entirely withdrawn from the syndicated loan market, in the wake of the Asian crisis.

Given the growth in the level of issuance, a number of deals have struggled, most notably William Hill and IPC. But HMV Media is the first to have to be substantially restructured.

The expected sale of the packaging business of the Dutch group KNP is expected to be the next substantial leveraged buy-out deal.

EMI's share price dances to the sound of takeover

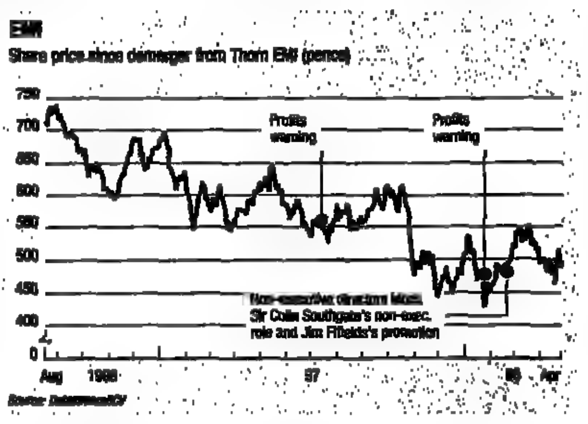
As talk of a bid proliferates it is only a matter of time before the music group is sold, says **Alice Rawsthorn**

It illustrates how nervous investors feel about EMI's future that its shares rose yesterday on the news that Edgar Bronfman Jr, chief executive of Seagram, long mooted as a bidder for the UK music group, was flying to London.

The fact that Sir Colin Southgate, EMI's chairman, and Simon Duffy, finance director, were on the opposite side of the Atlantic yesterday did little to dispel the bid rumours. Nor did Seagram's insistence that Mr Bronfman's trip was a routine one to visit the group's UK subsidiaries.

A glance at EMI's share price shows why investors are so jumpy. Up 9p to 498½p yesterday, EMI's shares are well below their 738p peak in August 1996 after the demerger of the Thorn rentals business. Shareholders who bought then have seen their investment halve in value against the FTSE All-Share Index.

Without a bid, the outlook for the shares seems poor. Since demerger, analysts have steadily downgraded their forecasts for EMI to



reflect sluggish global music sales, Asia's instability and the impact of the strong pound.

EMI started cutting costs last summer. It has shed 300 jobs in the US, and is now restructuring in Europe, but it will take time for the benefits to emerge. Lorna Tilbian, media analyst at Panmure Gordon, expects pre-tax profits of £312m for the year to March 31, against £380.6m in the previous year. A year ago, her 1997-98 forecast was £100m higher, and she forecasts modest profits of £330m for this year, if EMI remains independent.

Publicly, EMI declines to comment on bid rumours. Privately, executives admit that the company, which includes the world's largest music publisher and the recording rights to acts, including the Beatles and Pink Floyd, is up for sale.

All the other multinational music groups – PolyGram, Sony, Warner, Universal and Bertelsmann – are controlled by large entertainment companies.

The unofficial subtext to Thorn's demerger was that, having shed the rental subsidiary, EMI could be auctioned off at a hefty price.

Two years ago, Sir Colin held merger talks with Bertelsmann and Seagram, which owns Universal. Both companies reportedly baulked at his insistence that he and Jim Fifield, EMI Music's £7m-a-year president, should retain control.

Sir Colin's position has changed. After his appointment as chairman of the Royal Opera House in January, he told colleagues that he planned to go non-executive. EMI's non-executive directors vetoed that, and blocked Mr Fifield's proposed promotion to group chief executive.

Mr Fifield left this month with a £12m pay-off. His departure was interpreted as a deck-clearing exercise, and bid speculation has since intensified.

Seagram is seen as a prime contender, not least because Universal Music is strong in North America, but weak in Europe and Asia, making it a perfect complement to EMI. Mr Bronfman is understood to favour a bid, but his father, Seagram's chairman, and uncle, co-chairman of the board, are less enthusiastic.

Seagram has recently been clouded by negative publicity in the US over Universal's poor performance in film, although music has been more successful.

EMI executives suspect Walt Disney is a likelier suitor. It already has distribution links with EMI.

Disney could also cut costs by merging its video distribution operation with EMI's music one. This would enhance the financial benefits of the deal at a time when the music market is sluggish.

However, Disney may be wary of expanding in the high profile and controversy-prone music industry. "Disney's still reeling from the fuss when *Ellen* (the star character in one of its ABC subsidiary's TV series) came out as a lesbian," says one EMI executive. "And that's nothing compared to the trouble some of our bands could cause."

Stagecoach launches bond for 113 trains

By Edward Luce

Stagecoach, the diversified UK transport company, yesterday launched a £368m ($615m) bond which will be used to purchase 113 new trains. The "securitisation" offering, the first of its type for passenger trains, is the latest in a series of asset-backed bonds to be issued by UK companies.

An asset-backed bond is paper based on the collateral of future income streams such as mortgages, student loans, credit card receivables or even film royalties. In this case, the bond will be serviced by the income paid to Stagecoach from the lease of the trains to rail operating companies. The coupon on the three-tranche bond will be paid through a special purpose vehicle.

"This is is the first of what we expect to be many similar securitisations by the UK transport sector," said Keith Ballantine at UBS, joint lead manager with SBC Warburg. "If you look at the changes which will be made to London Underground or the needs of other rolling stock companies, this is likely to be a more common type of transaction."

The deal – including a £110m tranche which was privately placed with the European Investment Bank – follows the steep growth in the number of asset-backed bonds issued by UK borrowers in the eurobond market. The growth in securitisation, which recently included the sale of a portion of the UK government's student loan portfolio to bond investors and the financing of nursing home operating costs by a private company, has been fuelled by the perceived flexibility of such transactions.

Borrowers say it gives them access to longer-term funding than bank loans and enables them to achieve a higher credit rating by raising the money through a non-recourse – or legally separate – vehicle. The largest two tranches of the Stagecoach bond, which both have a maturity of 12 years, will be rated at AA, compared to an implied credit rating of BBB on the company itself.

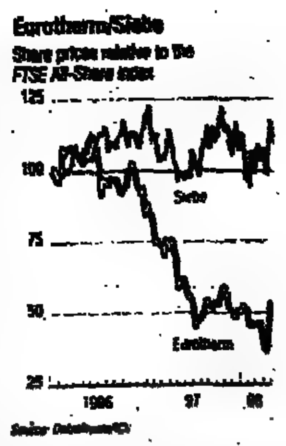
"This is not only cheaper than raising money from a bank but is more transparent and provides longer maturity," said Keith Cochrane, Stagecoach finance director. "In commercial terms it also means we can take the risk off our balance sheet." Stagecoach will use the proceeds of yesterday's issue to pay AD Tranz – a consortium including Daimler and ABB – for the construction of the rolling stock.

Stagecoach, which also issued a bond based on the lease income from existing rolling stock in 1996, is the first of the British rolling stock companies to buy new passenger trains since privatisation in 1996.

COMMENT

Siebe/Eurotherm

Claes Hultman was catapulted into the limelight in 1996 when Eurotherm's institutional shareholders campaigned to have him reinstated as chief executive. Unfortunately, this story has not had a fairy tale ending, with the shares underperforming the electrical equipment sector by more than 40 per cent before yesterday's Siebe bid. At least, the high pound is being blamed, not Mr Hultman. Still, Siebe is *not saving* Eurotherm's blushes out of charity. It is exploiting an opportunity to pick up a niche operator just as the currency has started to swing back in its favour. The use of Siebe's highly rated paper to fund most of the deal highlights the gap between international groups such as Siebe and GKN and their more UK-bound brethren. Such *snapping up* of smaller players still has some way to run.



Corporate governance

The UK is on the brink of having a new "super-code" on corporate governance. The stock exchange has just completed consultation on the draft code, drawn up by the Hampel committee. When companies prepare their 1998 annual reports, they will probably have to say whether they comply with the code and to justify any divergence. With its new hoops for companies to jump through – notably on non-executive directors – *some have complained* that the code is too prescriptive and inflexible, particularly for smaller companies. If compliance is difficult, so the argument goes, it diverts attention from wealth creation. This is not the case. But to take the code in their stride, boards will need to be properly informed on corporate governance issues and have access to a quality pool of non-executives.

Achieving the former will entail directors reading the Hampel report, and preferably the Cadbury and Greenbury reports too. This is not too much to ask: they amount to barely a slim paperback novel between them. It should be part of the learning process for directors.

The need for a growing pool of non-executives is more interesting. It shows that the new emphasis is having independent voices on the board. This is leading to novel ideas on how companies might tap into each other's talent. Such cross-fertilisation can only increase boardroom expertise, which bodes well for companies' health.

British Regional to float with £100m price-tag

By Jonathan Ford

Sir Michael Bishop, chairman of British Midland, is today expected to announce plans to float his domestic carrier, British Regional Airlines.

The flotation, which would value British Regional at about £100m ($167m), is the latest step in the restructuring of Sir Michael's airline interests.

It will also intensify speculation about the future of British Midland, the UK's second biggest scheduled carrier, of which he controls 60 per cent. SAS, the Scandinavian airline, owns the remainder.

Hitherto, Sir Michael has shied away from seeking a stock market quotation for his airline operations. He increased his shareholding in British Regional last year, when he purchased the 40 per cent stake held by SAS after demerging Regional from British Midland.

Sir Michael is expected to reduce his stake below 50 per cent at flotation, raising more than £20m.

Dresdner Kleinwort Benson is handling the placing, which is expected to take place in June.

British Regional is the UK's largest domestic airline, running services on 88 short haul routes.

Seventy of the airline's routes are operated under a franchise arrangement with British Airways which runs until 2003.

This allows British Regional's aircraft to carry BA livery. It also has access to BA's marketing channels.

British Regional operates the remaining 16 routes through its subsidiary, Manx Airlines. These are principally from the Isle of Man to the UK and Ireland.

The business has grown rapidly since Sir Michael purchased the SAS stake, partly because BA offered it franchises over more routes, once the Scandinavian airline was no longer a shareholder.

In the year to 31 December 1997, British Regional more than doubled pre-tax profits to £3.8m on sales 21 per cent higher at £165.3m.

The company is expected to raise about £25m of new money at flotation to expand its 46-strong fleet.

CU buys NFU for $118m

Commercial Union, the composite insurer that is to merge with General Accident, has acquired National Farmers Union, an agricultural insurer based in the midwestern region of the US, writes Christopher Adams.

CU is paying $118m for the company, which provides commercial and personal cover to rural communities across 12 states. The price represents a 64 per cent premium to NFU's net assets.

NFU will add £71m in net written premiums and £7m operating profits to CU's general operations, which produced £1.09bn premium income last year.

Founded in 1945, the company employs 265 and is likely to be run independently in CU, with Jake Krull, its chief executive, retaining his role.

Further Brit Biotech allegations

By Jonathan Guthrie

British Biotech, the biotechnology company, upgraded the status of clinical trials on the insistence of board directors, according to Dr Andrew Millar, the sacked head of clinical research.

The news is the latest in a series of disclosures by Dr Millar, who was fired a week ago for allegedly giving confidential information to third parties. He had discussed his view that spending plans were too heavily predicated on the success of two key drug trials with Perpetual, an important shareholder.

The Stock Exchange is believed to be investigating circumstances of share sales by British Biotech directors as far back as 1994. Separately, the US Securities and Exchange Commission is examining whether press releases on the blockbuster anti-cancer drug marimastat were over-optimistic.

In an interview with the FT, Dr Millar said that he had originally planned that Trial 126 on marimastat, the blockbuster anti-cancer drug, would be a "phase II" trial – the second of three trials made by any pharmaceuticals company before seeking marketing approval.

But board directors asked for the trial, launched in June 1996 to be made a final phase III trial, reflecting their confidence in the product, Dr Millar said.

He added that in November 1994, directors had requested that important tests of the pancreatitis drug Zacutex, originally envisaged as phase II trials, should be launched under a phase III banner. The event was duly announced in a press release.

British Biotech announced yesterday it would give shareholders a "detailed response" to allegations from Dr Millar. This will include a review of the company's approach to strategy, a research update and statement of cash balances at April 30.

It is thought that the circular could take up to a month to produce. City analysts expressed disappointment that their concerns about the company had still not been answered.

Andrew Millar: fired a week ago

Buoyant trading at Debenhams

By Peggy Hollinger

Debenhams, the department store chain demerged earlier this year from the Burton Group, yesterday reassured nervous investors with news of buoyant trading and better than expected interim *profits.*

The group's shares, which have underperformed the retail sector by 13 per cent since demerger in January, jumped 26.5p to 374p as it reported a 16 per cent rise in pre-tax profits to £77.1m. *($128.8m). Sales for the 26* weeks to February 28 rose by 7.8 per cent to £770.2m.

Debenhams' shares turned in the market's third best performance and led the sector with its 7.6 per cent rise.

Although the interim profits were about £2m ahead of expectations full year profit forecasts remained unmoved at about £134m.

Terry Green, chief executive, said the group's first set of results since demerger showed its strategy was delivering returns.

*He warned that the out*come for the year remained uncertain, with interest rate rises expected to affect consumer spending, but was cautiously optimistic.

Mr Green also set out the group's strategy for growth *in the UK and abroad, in an* attempt to reduce anxieties over prospects following demerger. He announced plans to open six new stores in the UK, three franchise stores in the Middle East and one in Iceland.

Decaux to sue More for £1m

By Andrew Edgecliffe-Johnson

Decaux, the French outdoor advertising group, intends to sue More Group, its UK rival for which it has launched a £475m ($793m) bid, for £1m.

More vigorously contested the claim by Jean-François *Decaux, the family-owned* group's chairman and chief executive, that one of its French employees had circulated a misleading document to discredit Decaux with advertisers.

Roger Parry, More's chief *executive, said the dispute* centred merely on some photographs which might have been mislabelled, and asked whether Decaux could produce the alleged document.

Mr Decaux, who confirmed that he would issue a civil suit in the French courts today, said he had not seen the document, but was assured that it existed by Carat, the Aegis-owned media-buying group whose name is alleged to have been used in the More Group document without permission.

Coline McConville, More's development director, said the dispute was counter-productive for Decaux, because "it is further evidence of how competitive these two companies are". Decaux is *awaiting news from the* Office of Fair Trading about whether it will be allowed to takeover More. A deal would give it about 90 per cent of the UK street furniture market.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Caldwell Invests	Yr to Dec 31	13.8	(13.2)	0.365♠	(0.78)	2.11	(5.57)	0.8‡	June 16	0.8‡	1.225‡	1.225‡
Dares Estates	Yr to Dec 31	8.09	(8.64)	0.41L♠	(2♥)	0.84L	(4.33)	-	-	-	-	-
Debenhams	6 mths to Feb 28 ★	770.2	(714.5)	77.1	(66.3)	13.8	(11.8)	3.9	July 1	-	-	-
EIS	Yr to Dec 31	530.5	(540.1)	15.4♠	(23.4)	14.1	(28.7)	10.3	-	9.9	14	13.5
Lusty (John)	Yr to Mar 31	30.2	(17.7)	1.94	(0.753)	0.92†	(0.48)	-	-	-	-	-
Market Link Φ	6 mths to Feb 28	2.64	(2.21)	0.222	(0.29)	0.93★†	(1.83★)	0.3	July 6	-	-	-
Nash (William)	Yr to Dec 31	9.16	(9.68)	3.22	(3.23)	28.24	(27.28)	5.3	June 1	4.9	8	7.5
Slingsby (HC)	Yr to Dec 31	14.6	(14.3)	0.612	(0.47)	43	(33.4)	15	July 3	12	18	15
Stratagem	6 mths to Feb 28	74.2	(74.5)	1.72	(0.709)	4	(2)	2	July 1	2	4	4
Wardle Storeys	6 mths to Feb 28	58.3	(54.1)	5.38	(4.82)	14	(12.3)	7	July 1	6.5	-	20.5
Watermark Φ	Yr to Dec 31	13.7	(12)	1.01♠	(0.653♠)	3.65	(2.3)	0.88	July 23	0.8	0.88	0.8

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
British Empire Secs	6 mths to Mar 31	140.34	(135.45)	1.53	(1.11)	0.81	(0.58)	0.25	June 12	0.25	-	1.07
Exmoor Dual	6 mths to Feb 28	89.04	(41.55)	0.403	(0.179)	4.57	(2.03)	1.8⁑	May 29	1.65	-	8.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ‡Foreign income dividend. ★Figures pro forma. ⁑Second interim.

MANAGEMENT SLEEPING ON THE JOB

Quick nap between the work sheets

Victoria Griffith on the growing number of companies that offer a pillow as part of the package

Falling asleep at work would be grounds for dismissal in many companies – at the very least it would merit a serious black mark. But far from discouraging napping in the office, some companies provide pillows and blankets.

Gould Evans, an architectural company in Kansas City, has set up sleep "tents" in an empty area of the office. The official napping loft at 42 IS, a consultancy in Berkeley, California, is so popular that workers have to make reservations well in advance. Yarde, a metals distributor in Connecticut, has incorporated a special sleeping room in designs for its new facility.

Engineers with the Burlington Santa Fe Railway Company in Texas are encouraged to nod off when they get the chance. A pilot programme at the petrochemical group Nova in Canada is allowing night workers to retire to a reclining chair if they feel drowsy. And British Airways is thinking about adopting a napping policy for its pilots during long-haul flights.

Even where there is no provision, workers can be creative about squeezing in a quick snooze. Bill Anthony, a sleep expert at Boston University, says he has interviewed people who sleep in their car in the company car park, in empty offices, or even in the toilet.

According to the National Sleep Foundation, based in Washington, 20 per cent of employees who work outside a nine-to-five schedule regularly fall asleep at work.

The pressures of home life and work have turned many employees into sleep-deprived zombies, says the foundation, and companies are paying the price in decreased alertness on the job. A Gallup survey last year found that 56 per cent of working adults experience significant drowsiness during the day.

Sleeping on the job is often a safety issue. A 1994 study by the Nasa Ames Research Centre provided strong evidence that a 40-minute rest during the cruise portion of a long-distance flight substantially improved pilots' alertness.

"Our workers deal with a lot of heavy, dangerous equipment," says Don Johnston, Nova's medical director. "They need to sleep when they're feeling drowsy."

Most companies limit naps to 40 minutes, allowing 20 minutes for workers to doze off and 20 minutes to snooze. That falls within the guidelines of what is referred to as the "power nap". "If you sleep for more than 20 minutes, you'll fall into a deeper sleep and feel groggy when you wake up," says Mr Anthony.

Instituting power naps at companies poses some interesting logistical problems. Should the sleeping areas be mixed or single-sex? Should workers bring their own pillows? What do you do about a colleague who snores? Companies are wondering, moreover, what is the best way to arouse a sleeping worker. Alarm clocks going off at odd times would disturb fellow nappers.

To resolve the problem, some corporations – such as Nova – have appointed co-workers to wake up napping colleagues. Others have adopted noiseless alarms that vibrate.

Companies that have made nap time official say their experience has been positive. "It's boosted employee alertness and morale," says Wendy Joel, shift work consultant for Nova. "Of course, there is bound to be some abuse of the system. But those workers are in the minority."

Even in organisations that have adopted a nap policy, many employees still do not feel comfortable sleeping on the job. Until recently, anyone nodding off at the Santa Fe Railway would have been sacked.

"It's hard to move from that sort of stance to getting workers to believe we're actually encouraging it," says Jim Sabourin, a spokesman for the company.

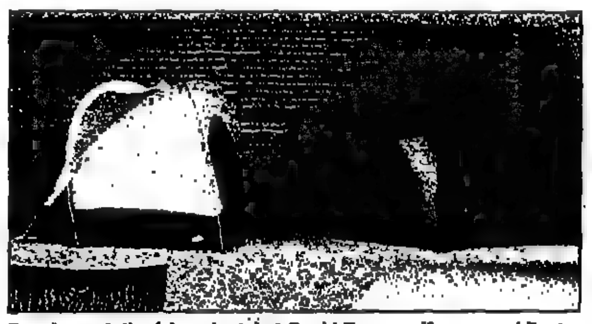
Just 15 per cent to 20 per cent of workers at Gould Evans have taken advantage of the benefit, although the company hopes to encourage more of its employees to take a nap. Many people still view daytime sleep as a slothful activity that will reflect poorly on them.

Yet some workers are grateful for the chance to lie down on the job.

"I used a nap tent the other day, when I wasn't feeling that well, but not bad enough to go home," says Lora Manka, communications co-ordinator for Gould Evans. "I think it really helps people to get through the day."

To participate in a survey on napping at the office, contact the website: www.napping.com

Dream jobs: a quick nap at work can improve productivity and safety — Kobal Collection



Pegging out: the 'sleep tents' at Gould Evans, a Kansas architect

HEALTH MIGRAINE

Light at the end of a darkened room

Sufferers may find cheaper and better treatments thanks to competition among drug makers, writes **Daniel Green**

Migraine sufferers endure both insult and injury: people who do not get migraines think sufferers are exaggerating, and migraine treatments do not work very well.

The insults are undeserved. Migraine is the most common neurological condition in developed countries. An estimated 23m Americans suffer from the recurrent intense headaches, often with visual and digestive system disturbances, that characterise an attack. In the UK, about 18m working days are lost to migraine sufferers a year, according to the charity Migraine Action. The condition primarily affects people of working age.

The injury is becoming less painful as a series of drugs is launched that, for most people, are an improvement.

Until the 1990s, migraine sufferers tended to take painkillers and lie down in a darkened room.

That often did little to stop the burning headaches, hallucinations and vomiting. The alternative was ergotamine-based treatments, which needed increasing doses to have an effect and could be addictive.

Then came the first of a class of drugs called triptans. These try to attack the causes of migraine rather than the symptoms.

Migraine seems to be caused by a contraction and subsequent dilation of blood vessels in the brain, triggered and maintained by a problem with a central part of the brain called the trigeminal nucleus.

Although the precise mechanism behind the contraction and dilation is not well understood, there is a clear link with a brain chemical called serotonin, the level of which is low for many migraine sufferers.

Triptans are "serotonin reuptake inhibitors". They increase serotonin levels by slowing absorption of the chemical.

The first of these drugs was Imigran (generic name sumatriptan, sold under different brands worldwide: Imitrex in the US and Imigrane in France).

Imigran was launched in the early 1990s and after a slow start is bringing in £1bn a year for its inventor, Glaxo Wellcome, the pharmaceuticals group.

It is available in nasal spray and injection form too, which speed the drug's onset. For those for whom migraines lead to vomiting or "gastric stasis" in which digestion stops, it may be the only way to take the drug.

Patients and even doctors face a potentially confusing array of treatments

But Imigran has had side-effects for some, including variations in blood pressure, tempting some sufferers to stop taking the drug. Others complained of a migraine hours after taking the drug, leading to the perception that all Imigran did was postpone an attack. Nor does it cross easily from the bloodstream into the brain, so while it has an effect on blood vessels, it cannot have a strong effect on the trigeminal nucleus.

Glaxo has launched its second triptan (naratriptan), sold as Naramig, which lasts longer in the body.

But Glaxo no longer has the field to itself. UK rival Zeneca has launched Zomig (zolmitriptan). The company claims a faster onset, with about 40 per cent of sufferers responding after 1 hour and 64 per cent after 2 hours.

Also coming on to the market is Maxalt (rizatriptan) from US company Merck, which received its first European approval in the Netherlands this year. Maxalt also claims a rapid onset.

As if that were not enough, at least two more drugs may be launched in the next two years: eletriptan from US company Pfizer, and a drug code-numbered VML-251, being developed by UK biotechnology company Vanguard Medica. If VML-251 gets to market, it is likely to be sold by SmithKline Beecham, another UK pharmaceuticals company.

That leaves patients and even doctors with a potentially confusing array of treatments, and both groups likely to be the target of heavyweight drug marketing.

Migraine Action says patients will have to try different drugs to see which works for them; doctors are likely to leave them on treatments that work without even trying new drugs.

Side-effects also vary widely between individuals.

Finally, there are also differences in effectiveness between the drugs depending on whether the migraine attack has started in earnest or whether the sufferer has noticed the early signs and taken the drug at once.

So patients face a laborious process to find the best treatments. Some of them, according to Migraine Action, go back to the pre-triptan treatments because they are not convinced the new drugs work for them.

One piece of good news is that competition between triptan suppliers is cutting prices. Imigran is more expensive than Zomig and Naramig, according to Migraine Action.

That, at least, may encourage doctors to test-prescribe different drugs to try to find the best for each patient.

Finns' levy on power imports ruled unlawful

European court

The European Court of Justice has declared unlawful an excise duty which, although levied on domestic and imported electricity alike, used a different basis for calculating duty depending on whether the electricity was domestic or imported.

It ruled in favour of Outokumpu Oy, a Finnish company that challenged a decision of the district customs office in Helsinki assessing duty on electricity imported from Sweden in 1995.

Under Finnish law, sources of energy are subject to basic and additional duty. Imported electricity is subject to a flat rate of duty calculated so as to correspond to the average rate levied on electricity produced domestically.

The customs office decided that Outokumpu was liable to pay duty on imported electricity based on the tax table for imports. The company appealed against its decision on the grounds that it breached the Treaty of Rome that founded the European Union.

Since the office felt the case turned on the interpretation of the Treaty's taxation provisions and the prohibition on charges of equivalent effect to a customs duty, it referred the matter to the European Court.

The Court first noted that the Treaty contains separate rules on discriminatory taxation and charges of equivalent effect to customs duties. These rules cannot be applied simultaneously to the same measure.

Any pecuniary charge, however applied, that is imposed unilaterally on goods because they cross a frontier, and that is not a customs duty in the strict sense, constitutes a charge having equivalent effect to a customs duty.

Such a charge may not be so characterised if it forms part of a general system of internal dues applying systematically to categories of products according to objective criteria and without regard to origin. In that case, the charge falls to be dealt with under the taxation provisions of the Treaty. The Court ruled that the Finnish duty fitted that category.

Imported and domestic electricity formed part of the same tax system and the duty was levied by the same authorities, whatever the origin of the product, under procedures governed by general taxation legislation.

Since both imported and domestic electricity were subject to a levy, it could not be said that the charge was imposed by reason of importation alone. Thus the electricity tax was not to be classed as a customs duty, but rather fell under the provisions concerning internal taxation.

In that regard the Treaty did not preclude the rate of an internal tax varying according to how the electricity was produced.

But it did preclude calculating the tax on the imported product and that on similar domestic products in a different manner on the basis of different criteria that led, even if only in certain cases, to higher taxation on the import.

The Court did not accept that, because of the characteristics of electricity, a flat rate calculated to correspond to the average rate levied on domestic electricity was the only way of treating the imported electricity in an equitable manner.

Practical difficulties did not exempt an EU member state from the prohibition on discriminatory internal taxation. It was incumbent upon the state to abolish discriminatory internal taxation measures where this was the only way of avoiding direct or indirect discrimination against imported products.

C-213/96: Outokumpu Oy, ECJ FC, April 2 1998.

BRICK COURT CHAMBERS, BRUSSELS

PEOPLE ON THE MOVE

Watkins resigns from Latinvest

Richard Watkins has resigned from Latinvest, the Latin American stockbroking firm he formed with others in 1992.

His departure follows the takeover of Latinvest for $50m 18 months ago by BBV, the Spanish bank which is on the acquisition trail in Latin America.

Watkins said the departure was completely amicable, and indeed was hardly a surprise. As group chief executive of what is now BBV Latinvest over the past 18 months, he has overseen its reorganisation along product lines and its integration into the BBV network.

He also managed the acceptance of BBV by the Federal Reserve in the US as owner of an investment bank under the so-called Section 20 rule. BBV Latinvest, which has expanded from equity into debt operations since BBV took over, employs 125 people in London and New York.

Watkins, 47, who is a non-executive director of the Morgan Grenfell Latin American Companies Trust and is on the board of London University's Institute of Latin American Studies, said he wants to get back to what he calls "pure investment banking". He started his career with Kleinwort Benson in the late 1970s. "I've have had enough administration in the past couple of years to last me a lifetime," he said.

Two co-founders of the outfit, Sarah Lavers and Pierre André Morgue de Algue, left last year, leaving only one of the original founders there: Per-Arne Johansson.

Stephen Fidler, London

Melnuk to lead Barrick

Barrick, North America's second-largest gold producer, has appointed Paul Melnuk as president and chief executive officer.

He will assume the executive duties of Peter Munk, who will remain as chairman and continue to be involved in the corporation's overall strategy and direction. Munk intends to devote more time to TrizecHahn, his office and retail property group.

Melnuk was previously president and chief executive of Clark USA, the petroleum refiner and marketer, which he turned around to achieve record operational results in 1997.

Canada-based Barrick said that under Melnuk, Clark USA achieved strong growth, controlled administrative costs and developed a highly motivated entrepreneurial culture among the workforce.

Melnuk has worked with Munk for more than a decade, including serving as chief executive of Munk's Horsham and then at Clark USA, in which Munk's TrizecHahn owned an interest until last year.

Melnuk assumes his duties amid a slump in gold prices that has hit producers hard. While Melnuk has no mining experience, the new chief executive said he brings strong leadership abilities to Barrick.

His mandate is to continue the company's prudent financial approach and aggressive operational drive. Barrick recently reported that first quarter earnings rose to US$75m, in part because of its aggressive forward hedging programme.

Scott Morrison, Toronto

Rothschild recruits from Chase

NM Rothschild & Sons has poached two senior investment bankers from Chase Manhattan, the US bank, boosting the UK investment bank's mining sector advisory business.

In a move that highlights Chase's need to build or acquire an equities research and underwriting business, Jim Griffin and Kurt Oehlberg have resigned as senior executives at Chase Securities to join Rothschild's natural resources team as managing directors.

Griffin headed Chase Securities' global mining group and Oehlberg was a managing director specialising in mergers and acquisitions in the mining industry. They said there were two main reasons for the move: the strength of Rothschilds' natural resources team and the weakness of Chase's equity capabilities.

"Rothschild has all the total advisory package and with mining, having a strong equity capability is very important," said Griffin.

In recent months Chase has approached at least four potential merger partners in an attempt to build a bulge bracket investment banking business. They have included Credit Suisse, the Swiss bank which owns investment bank CSFB, and two leading US investment banks – J.P. Morgan and Goldman Sachs.

Chase has already made strides in most of the main investment banking product areas, but executives concede their need to build or acquire equities research and underwriting capabilities.

Griffin and Oehlberg are best known on Wall Street for advising on a number of deals in the coal industry. They have worked for companies such as British Petroleum, WR Grace, Mobil and Ingersoll Rand.

William Lewis, New York

Shaw to join HSBC Holdings

David Shaw, a senior corporate partner with the Norton Rose law firm in Hong Kong, is to join HSBC Holdings as an adviser to the board.

Shaw has worked closely with the HSBC group as a legal adviser for more than 20 years, but his new role will enable him to advise more broadly on strategic and structural issues and on specific projects.

The position stands outside the bank's day-to-day management hierarchy. But he will also serve on the group executive committee and will chair the group's investment banking audit committee.

MOVING PLACES

● SCHRODER CAPITAL MANAGEMENT has appointed Bob Michels head of US fixed income. Previously he was a managing director and portfolio manager at Blackrock Financial Management.

● DAIWA EUROPE has announced the appointment of Amalia Estenssoro as Latin American economist in the fixed income division. Previously she worked as a Latin American economist for HSBC James Capel. Odo Habeck has joined DAIWA's growing global market debt origination team, as senior vice-president with responsibility for coverage of Latin America. Habeck will be based in New York with Daiwa Securities America, and will report to Vince Burton, managing director and head of emerging markets operation in Daiwa Europe. Prior to joining Daiwa, Habeck was with Deutsche Morgan Grenfell in New York.

● Iain Saville, the chief executive of CRESTCo, has been elected chairman of the EUROPEAN CENTRAL SECURITIES DEPOSITORIES ASSOCIATION.

● WATTS BLAKE BEARNE, one of the world's largest extractors of high quality ball clays, has announced the appointment of Gerhard Hillebrand as managing director of its German subsidiary, Fuchs'sche Tongruben (Fuchs-Ton), based in Ransbach-Baumbach, Westerwald. Hillebrand, 46, who became joint managing director of Fuchs-Ton in July 1997, succeeds Eckart Groll, who retires after 34 years service with the company.

● The ESTEE LAUDER COMPANIES has appointed John Demsey, currently senior vice-president, sales & education, Estee Lauder USA & Canada and Donna Karan Cosmetics Company, to the newly-created position of managing director, M A C (Make-Up Art Cosmetics) a wholly-owned subsidiary of Estee Lauder Companies.

● IMS HEALTH, the provider of information solutions to the pharmaceutical and healthcare industries, has appointed two new directors. Robert Frosell becomes chief information officer and Per Trien becomes vice-president, global strategic planning. Both directors will be based in London at IMS Health's global and European headquarters. Troien joins from Pharmacia-Upjohn while Frosell joined IMS last September as director of operations from Burger King, part of Grand Metropolitan, now Diageo.

● FINANCIAL TIMES MANAGEMENT has appointed a managing director for Financial Times Management, Asia. Richard Kemp will be based in Kuala Lumpur, Malaysia. He was previously sales director at Heinemann ELT.

● Richard Thompson has joined BRITISH AEROSPACE AIRBUS as commercial director, based in the Airbus Military Company in Toulouse, France. Thompson, who was formerly marketing director at Westinghouse Signals in Chippenham, Wiltshire, replaces Andy Lewis who has been appointed director sales support for the Eurofighter consortium, based at British Aerospace Military Aircraft in Warton, Lancashire.

● GROUPE BULL has appointed David Levy president/chief executive of its market leading smart cards & terminals division. He replaces Ghislain Lescuyer, who now leads Bull's integration services division. Until December Levy was chief operating officer of GemPlus in charge of products.

● COLLEGE HILL UNDERWRITERS have announced that Harold Livesey has been made deputy chairman whilst Andrew Ray becomes managing director.

● BANK OF AMERICA has appointed Stanislas Popow country manager for Poland and chairman of the board of Bank of America (Polska) in Warsaw. Popow joins Bank of America from Bankers Trust in Warsaw where he has been head of the bank's office since 1991. He succeeds Daniel Wood, who set up the bank's representative office in Warsaw in 1996.

● London-based MEZZANINE MANAGEMENT, one of Europe's largest mezzanine funding providers, has appointed Steffen Lehmann managing director of its Frankfurt office. Lehmann, 37, was previously manager of the venture capital group 3I in Frankfurt, with responsibility for most of Germany, Austria and Switzerland.

● SEAGATE SOFTWARE, a provider of network and storage management solutions for Microsoft Windows NT Server and Windows NT Workstation, has announced the appointment of Michael Sotnick as director of sales and marketing, Europe, Middle East and Africa for the Network and Storage Management Group. Sotnick was previously responsible for North American distribution, reseller and corporate sales based in Orlando, Florida, USA.

● RUDER FINN has announced that Paul McDade will join the agency as executive vice-president of Ruder Finn's health care division, a new position at the agency. McDade is leaving Edelman PR Worldwide, where he has been a senior vice-president in the health care group.

● TOSHIBA has appointed Mark Peachey to the new role of commodity products manager, European distribution sales. Peachey will manage Toshiba's European commodity semiconductor distribution business with responsibility to oversee Toshiba's support for this group of customers.

● Brian Friedman has been promoted to global leader of Arthur Andersen's Human Capital Services practice which employs 1500 people worldwide. Friedman, who is president of the United Kingdom Society of Share Scheme Practitioners, will continue to be based in London.

● CHASE MANHATTAN BANK has appointed Frederick Ma managing director and Asia area executive of its Private Bank. Ma, most recently managing director of Kumagai Group (HK), will assume the new post in June.

Prices fall on fears of rising rates

GOVERNMENT BONDS

By Simon Davies in London and John Authers in New York

Prices moved sharply lower yesterday, reflecting growing fears of a deteriorating interest rate environment in the US and Europe.

Investors were concerned that the core European markets may see interest rate increases after evidence of increased economic activity but the main driver for the markets was dramatically weakening sentiment in the US.

Fears that the Federal Reserve could again be planning to tighten interest rates to damp strong US economic growth led to heavy selling of US TREASURIES on Wall Street yesterday.

By midday, the benchmark 30-year Treasury had slipped 1⅜, to yield more than 6 per cent for the first time in more than a month. Declining prices were registered across the yield curve, with the two-year bond down ⅛ at 99¾ to yield 5.68 per cent.

A report in yesterday's Wall Street Journal that the Fed's open markets committee, which sets monetary policy, had decided to adopt a bias towards tightening at its meeting at the end of last month, was the main cause for the sharp turn in sentiment.

This strengthened the belief, which was already in evidence at the end of last week, that a monetary tightening could be imminent. Traders were also unnerved by the fact that the Fed's deliberations appeared to have leaked.

This was exacerbated by data from the National Association of Realtors, which showed sales of existing homes had hit a record rate in March.

Sales rose 2.5 per cent during the month, when analysts had expected a decline. This was treated as further evidence that the Fed might think economic activity in the US was growing too quickly.

Several important data releases are due later this week that bear on the strength of the US economy. Particular attention will focus on Thursday's publication of provisional estimates for GDP growth in the first quarter, and for the employment cost index, which has long been monitored by the Fed as a signal of inflationary pressure.

The slump on Wall Street accelerated declines on European markets. The Italian and UK markets were marginally weaker than Germany's, but European markets fell across the board.

GERMAN BUNDS settled 0.82 lower at 106.41 on significantly increased volumes, as hopes of further interest rate cuts both in Europe and the US evaporated.

The market had moved weaker long before Wall Street opened, as investors grew nervous about the weekend's state election results, where Chancellor Helmut Kohl fared badly.

David Brown, European economist at Bear Stearns, said: "With a Bundesbank council meeting looming again on Thursday, we think 'never say never again' is an appropriate catch-phrase for the markets over the risk of near-term German rate rearmament."

UK GILTS ignored last week's evidence that the UK at least is less likely to face further interest rate rises. The June contract settled ¾ lower at 107½, having been a whole point down at one stage.

The sell-off spread along the yield curve. And the 10-year yield spread against bunds widened by two basis points to 99 points.

ITALIAN BTPs also slumped, although, unlike the domestic equity market, they fell in line with Germany. The June contract settled 0.80 down at 118.03.

Project finance deal for Venezuela

By Raymond Colitt in Caracas

Venezuela is returning to the capital markets with a project finance deal that could set a benchmark for the oil-rich nation and mark a resurgence in regional project lending.

A joint venture led by Pequiven, the petrochemical subsidiary of state-owned petrol company PDVSA, yesterday announced an $810m finance package for a fertiliser complex in north-eastern Venezuela.

The deal includes a $250m issue of SEC Rule 144a bonds maturing in 2020 and a syndicated loan for the remaining $560m. Pequiven said Citibank, NationsBank and Mediocrédito Centrale are syndicating the loan and placing the issue.

The bonds were rated Baa3, BBB, and BBB by Moody's, Duff & Phelps and Fitch IBCA, respectively, Pequiven said.

The other companies making up the FertiNitro joint-venture are Koch Nitrogen of the US, Snamprogetti of Italy, and Venezuelan food and beverage concern Polar.

The deal comes after the Asian crisis put a damper on project finance deals in Latin America, which began to flourish in early 1997.

The announcement comes as PDVSA was scheduled to begin a roadshow in Europe and the US yesterday to promote a $1bn bond issue. It was forced to reduce expenditure by more than $800m earlier this year, following a shortfall in the government's oil revenue.

Fitch IBCA in November rated PDVSA dollar-denominated senior unsecured obligations at BBB, four notches above Venezuela's long-term sovereign rating of BB–.

Slovenia plans issue for euro investors

By Kevin Done and Virginia Marsh in Ljubljana

Slovenia, the highest rated of any of the former communist countries of central and east Europe, is pioneering new ground for the region. It plans to issue a Ecu400m-Ecu500m eurobond in the second half of May aimed at investors in the new euro currency.

The bond will be launched in Ecus for a minimum of Ecu400m, but will be transformed into euros with the first interest payments being made in the new European currency due to be launched in January next year.

The issue will have a maturity of seven years and will be lead-managed by J.P. Morgan and Banque Paribas. Investor presentations in Paris, Milan, London and probably Frankfurt will take place in mid-May.

The issue could be followed later this year by the launch of a $200m-$300m Yankee bond to US investors, which would complete Slovenia's planned borrowing this year in the international capital markets.

According to western bankers in Ljubljana, Slovenia is seeking to establish a benchmark bond in euros to tap the large new investor base that will be created by the new currency.

It will be the first country from central and east Europe to launch a euro-denominated eurobond and the first of the five central European candidates for membership of the European Union to make such a move.

Slovenia, which gained independence in 1991 with the collapse of Yugoslavia, is the most prosperous country to have emerged from east Europe. Its per capita gross domestic product is similar to EU countries such as Portugal and Greece and began negotiations on EU membership in Brussels last week.

It is the only country from the region with investment grade ratings from all the leading international agencies. The country is rated Single A with a stable outlook by Standard & Poor's and A– and A3 (the equivalent of A–) by Fitch IBCA and Moody's, respectively.

A western banker in Ljubljana said the eurobond was "a strategic transaction for Slovenia to introduce itself to a pan-European investor base. The country is in the D-Mark zone with the tolar [the Slovenian currency] more or less pegged to the German currency."

Slovenia is planning to use proceeds from the issue to refinance the more expensive US dollar denominated Series I bonds it issued in 1996 as part of the settlement of its share of the debt of former Yugoslavia to the London Club of commercial banks. They will also help finance the public sector budget deficit, which is forecast at some 1 per cent of GDP this year.

Slovenia made its debut in the international bond market in 1996 with a $325m issue made at a spread of 58 basis points over US Treasuries, which is now trading at a spread of around 70.

This was followed by a DM400m eurobond last year. Last month it also agreed a DM150m three-year revolving credit facility from a syndicate of 12 banks.

Toyota returns with $1bn offer

INTERNATIONAL BONDS

By Edward Luce

Toyota Motors Credit Corp, the main funding vehicle for the Japanese car company, launched its first international bond for almost a year in a $1bn offering.

The five-year bond, which is expected to be priced at a spread of 32 basis points over the "when-issued" US Treasury, was preceded by a short roadshow in Europe to reassure TMCC's traditional investor base about the company's financial strength.

The AAA-rated company last came to the market in mid-1997 with a 10-year $1bn transaction. That deal is now trading at a spread of more than 40 basis points in the secondary market.

"The borrower felt conditions were right for a return to the market," said an official at Credit Suisse First Boston, joint lead with Merrill Lynch and J.P. Morgan. The official noted strong demand from Asia.

CAISSE CENTRALE DU CREDIT IMMOBILIER DE FRANCE, the country's largest housing finance company, will today issue a Ecu1bn bond targeted at European money managers.

The three-year floating-rate bond, which will have a "punitive put" option after one year and thereafter every three months, is considered the first significant euro-denominated transaction to be targeted purely at such investors. The put option is described as punitive because it would be redeemed at a sub-Libor rate.

"Money managers obviously cannot invest in paper with a maturity of longer than one year so this is specifically tailored for them," said an official at CSFB, lead manager.

FINLAND is to issue its debut euro-denominated bond in the next two weeks according to treasury officials in London yesterday for the roadshow. Unlike other sovereign euro issues, the bond is part of the Finnish government's domestic issuance programme.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Sasco(a)	1.541bn	-	-	-	-	-	Lehman Brothers
Toyota Motor Credit Corp	1bn	(b)#	(b)R	May 2003	0.25R	+32 area	CSFB/Merrill/JP Morgan
Hellenic Republic(c)	500	6.95#	101.805R	Mar 2008	0.375R	+99(5½%Feb08)	Lehman/JP Morgan
Allied Irish Bank(d)‡	250	(d1,s)	99.516R	Undated	1.00R	-	Lehman Brothers
Munich Hypo(e)	200	4.75	98.753R	May 2001	0.1875R	+24(5⅝%Feb01)	Bayerische Vereinsbank
Union Bank of Estonia‡	70	(f)	99.50	May 1999	0.25	-	Nomura International
Banco AGF Braseg	50	9.50#	99.77R	May 2000	0.65R	+398(WI 2yr)	ABN Amro
D-MARKS							
CSFB London Branch	350	5.875	99.70R	May 2010	0.40R	+78(5¼Jan08)	CSFB
GECC	150	2.375	92.374R	May 2002	0.225R	+4(4½%Feb02)	Daiwa Europe(Deutsch)
STERLING							
New Inv for Trains, A(g1)‡	61.358	(g1,l)	100.00R	Feb 2011	0.325R	-	SBCWDR/UBS
New Inv for Trains, B(g2)‡	53.8	(g2,l)	100.00R	May 2011	0.625R	-	SBCWDR/UBS
World Bank★	90	8.14(q)	100.00	Nov 2000	0.8555§	-	IBJ Intl/Wako Intl
FRENCH FRANCS							
Santander International(h)	2bn	5.00	99.86R	Apr 2005	0.30R	+25(7½Apr05)	BNP/SG
ITALIAN LIRE							
SunAmerica Inst Fdg I(i)‡	100bn	(i1)	101.375	Apr 2018	1.875	-	Morgan Stanley DW
GUILDERS							
Daimler-Benz North America	200	4.75	99.687R	May 2003	0.30R	+18(6½Apr03)	ING Barings
AUSTRALIAN DOLLARS							
Westpac Banking Corp‡	300	(k)	99.735	May 2003	0.15	-	Barclays Capital

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Multi-class deal secured on mortgages. b) Priced today. c) Fungible with $1.25bn. Plus 56 days accrued. d) Preference shares. Callable from Jul 08 at par. d1) 3-mth Libor +87½bp to Jul 08, then +187½bp. e) Oeffentliche Pfandbrief. f) 3-mth Libor +150bp. g) Secured on Train leases. Originator: Porterbrook. Callable from Mar 04 at par. g1) Av life: 7.72 yrs. 3-mth Libor +37½bp. g2) Av life: 8.29 yrs. 3-mth Libor +75bp. g3) Class C: £25m, 3-mth Libor +120bp, parR, 8.49 yrs. h) Fungible with DM500m. Plus 31 days accrued. i) Fungible with L175bn. Plus 35 days accrued. i1) 12% in yr 1, 8% in yr 2, 8% in yr 3, 7% in yr 4 & 5, then 15% - 2 x 12-mth Libor. k) 3-mth bank bills flat. l) Long 1st coupon. q) Quarterly. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 27	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.8744	4.90	–0.08	–0.06	–0.18	–1.51
	10/07	10.000	131.6335	5.61	–0.07	–0.08	–0.20	–2.27
Austria	09/99	7.000	103.7400	4.15	+0.05	–0.01	+0.10	+0.22
	07/07	5.625	103.7700	5.10	+0.09	+0.15	+0.13	–0.81
Belgium	01/00	4.000	99.6000	4.23	+0.07	+0.04	+0.14	+0.46
	03/07	6.250	106.1500	5.08	+0.07	+0.12	+0.11	–0.95
Canada	09/99	4.750	99.4500	5.17	+0.08	+0.20	+0.24	+0.21
	06/07	7.250	112.2000	5.43	+0.08	+0.13	+0.08	–1.38
Denmark	12/99	6.000	102.2400	4.51	+0.07	+0.12	+0.26	+0.38
	11/07	7.000	112.5300	5.29	+0.10	+0.20	+0.16	–1.28
Finland	01/99	11.000	104.8295	3.88	+0.08	+0.08	+0.20	+0.08
	04/08	7.250	114.4570	5.00	+0.08	+0.13	+0.17	–1.34
France	01/00	4.000	99.7503	4.18	+0.08	+0.01	+0.10	+0.35
	10/04	6.750	110.6500	4.78	+0.08	+0.10	+0.13	–0.87
	10/07	5.500	103.4000	5.04	+0.09	+0.14	+0.12	–0.77
	10/25	6.000	106.0600	5.56	+0.10	+0.16	+0.10	–1.13
Germany	09/99	4.000	99.9700	4.01	+0.02	–0.01	+0.12	+0.40
	11/04	7.500	114.5100	4.85	+0.10	+0.12	+0.15	–0.56
	07/07	6.000	106.8600	5.04	+0.10	+0.15	+0.15	–0.89
	07/27	6.500	113.2300	5.57	+0.10	+0.16	+0.11	–1.12
Ireland	04/99	6.250	100.9600	5.12	+0.18	-	+0.06	–0.78
	08/06	8.000	118.5600	5.18	+0.09	+0.11	+0.17	–1.82
Italy	06/00	8.000	102.6300	4.63	+0.08	+0.10	+0.15	–2.25
	06/02	6.250	106.0600	4.86	+0.09	+0.11	+0.16	–2.29
	07/07	6.750	111.0400	5.22	+0.11	+0.17	+0.16	–2.37
	11/26	7.250	121.8900	5.69	+0.09	+0.18	+0.10	–2.39
Japan	03/00	6.400	111.0000	0.51	–0.02	–0.06	–0.14	–0.39
	12/02	4.800	116.7800	1.05	–0.02	–0.05	–0.16	–0.84
	09/05	3.000	110.0500	1.55	–0.03	–0.01	–0.13	–0.72
	06/17	3.000	109.0200	2.41	–0.03	-	–0.08	–0.56
Netherlands	11/99	7.500	104.8900	4.14	+0.05	-	+0.13	+0.34
	02/07	5.750	105.1500	5.01	+0.10	+0.14	+0.14	–0.78
New Zealand	02/00	6.500	98.0708	7.67	+0.06	–0.01	–0.19	–0.09
	11/06	8.000	107.5412	6.80	+0.01	+0.04	–0.21	–1.34
Norway	01/99	9.000	103.2300	4.49	-	+0.11	+0.27	+0.43
	01/07	5.750	109.1100	5.41	+0.08	+0.17	+0.22	–0.75
Portugal	03/99	8.500	103.6953	4.19	+0.03	–0.03	+0.11	–1.80
	02/07	6.625	110.2239	5.15	+0.11	+0.15	+0.14	–1.62
Spain	07/99	7.400	103.6523	4.31	+0.10	+0.08	+0.18	–1.28
	03/07	7.350	115.4070	5.15	+0.10	+0.15	+0.13	–1.81
Sweden	01/99	11.000	104.3190	4.70	+0.04	+0.07	+0.02	–0.28
	08/07	8.000	119.3730	5.30	+0.11	+0.17	+0.06	–2.03
Switzerland	03/00	5.000	105.5000	1.96	+0.04	+0.07	+0.24	+0.17
	06/07	4.500	110.5500	3.15	+0.02	+0.11	+0.33	–0.47
UK	08/99	6.000	99.1875	6.66	+0.10	–0.01	–0.07	–0.33
	11/04	6.750	103.7813	6.04	+0.15	+0.15	–0.05	–1.81
	12/07	7.250	109.6484	5.92	+0.11	+0.14	–0.03	–1.76
	06/21	8.000	127.1328	5.84	+0.08	+0.16	–0.02	–1.98
US	10/99	5.625	99.8750	5.71	+0.11	+0.11	+0.05	–0.83
	11/04	7.875	111.0630	5.82	+0.10	+0.14	+0.08	–1.02
	08/07	6.125	101.9840	5.84	+0.12	+0.13	+0.10	–1.10
	08/27	6.375	104.0940	6.07	+0.09	+0.12	+0.09	–1.07
ECU	01/00	4.000	99.6100	4.23	+0.06	+0.03	+0.10	–0.16
	04/07	5.500	102.9300	5.08	+0.09	+0.14	+0.12	–1.24

London closing. *New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Apr 27	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.61	+0.57	–0.16	New Zealand	6.80	+1.76	+1.03
Austria	5.10	+0.06	–0.67	Norway	5.41	+0.37	–0.36
Belgium	5.08	+0.04	–0.69	Portugal	5.15	+0.11	–0.62
Canada	5.43	+0.39	–0.34	Spain	5.15	+0.11	–0.62
Denmark	5.29	+0.25	–0.48	Sweden	5.30	+0.26	–0.47
Finland	5.00	–0.04	–0.77	Switzerland	3.15	–1.89	–2.62
France	5.04	–	–0.73	UK	5.92	+0.88	+0.15
Germany	5.04	–	–0.73	US	5.77	+0.73	-
Ireland	5.18	+0.14	–0.59	ECU	5.08	+0.04	–0.69
Italy	5.22	+0.18	–0.55				
Japan	1.55	–3.49	–4.22				
Netherlands	5.01	–0.03	–0.76				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Apr 27	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB–	97.2224	7.85	+0.15	–0.24	+2.11
Poland	07/04	7.125	BBB–	101.9041	6.74	+0.15	+0.14	+0.98
Russia	06/07	10.000	BB–	95.8500	10.75	+0.05	+0.10	+4.86
LATIN AMERICA								
Argentina	09/27	9.750	BB	95.5000	10.23	+0.21	+0.46	+4.18
Brazil	05/27	10.125	BB–	95.6000	10.62	+0.21	+0.48	+4.56
Mexico	05/26	11.500	BB	119.5000	9.49	+0.21	+0.29	+3.47
ASIA								
China	07/06	7.750	BBB+	104.5777	6.99	+0.15	–0.05	+1.22
Philippines	10/16	8.750	BB+	94.6786	9.36	+0.15	+0.25	+3.48
Thailand	04/07	7.750	BBB–	95.2355	8.53	+0.15	–0.13	+2.76
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	102.1858	7.99	+0.15	+0.11	+2.30
South Africa	10/06	8.375	BB+	101.8601	8.05	+0.15	+0.08	+2.28
Turkey	09/07	10.000	B	102.2592	9.60	+0.15	+0.08	+3.83
BRADY BONDS								
Argentina	03/23	5.500	BB	75.0000	8.39	+0.15	+0.21	+2.41
Brazil	04/14	5.000	BB–	81.2500	8.71	+0.24	+0.52	+3.86
Mexico	12/19	6.250	BB	83.2500	7.67	+0.15	+0.16	+1.95
Venezuela	03/20	6.750	B+	85.1300	8.22	+0.02	+0.20	+2.28

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.59	102.99	–0.88	103.64	102.89	5,778	87,209
Sep	103.37	102.83	–0.78	103.37	102.46	1,602	873

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Sep	Puts May	Puts Jun	Puts Sep
102	1.65	1.69	1.96	0.02	0.06	0.56
103	0.87	1.06	1.30	0.07	0.25	0.86
104	0.17	0.46	0.77	0.36	0.64	1.31
105	0.02	0.08	0.27	1.21	1.31	1.93

Est. vol. total, Calls 17,108 Puts 8,001. Previous day's open int., Calls 60,115 Puts 78,785.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.06	107.23	+0.04	107.27	106.99	88151	186984
Sep	106.53	106.95	+0.03	106.83	106.82	66	1517

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
10800	0.72	0.79	0.98	1.09	0.31	0.68	0.83	0.98
10850	0.43	0.52	0.72	0.84	0.52	0.89	1.06	1.21
10700	0.22	0.33	0.51	0.64	0.81	1.20	1.38	1.51

Est. vol. total, Calls 29531 Puts 21082. Previous day's open int., Calls 184594 Puts 172896

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104.92	104.68	–0.23	104.98	104.63	186,602	244,194
Sep	-	104.54	-	-	-	30	9,019

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		104.93	-			0	784
Sep		104.80	-			0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	118.73	118.63	–0.82	118.89	118.63	19652	122230
Sep		119.30	–0.82			0	5902

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Jul	Puts Jun	Puts Jul
11800	0.49	1.01	0.46	0.50
11850	0.27	0.73	0.74	0.72
11900	0.13	0.51	1.10	1.00

Est. vol. total, Calls 1803 Puts 1781. Previous day's open int., Calls 81723 Puts 141245

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	108.90	108.13	–0.78	108.92	108.10	121,765	63,084
Sep	-	107.92	-	-	-	-	97

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	102.91	103.04	+0.15	103.05	102.91	395	9884
Sep		104.39	+0.15			0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108-14	108-26	+0-09	108-28	108-11	89614	246088
Sep		108.94	+0.26			0	3

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls May	Calls Jun	Puts May	Puts Jun
108	0-37	0-60	0-03	0-26
109	0-02	0-27	0-32	0-57
110	0	0-09	1-30	1-39

Est. vol. total, Calls 6114 Puts 5298. Previous day's open int., Calls 55054 Puts 30958

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	120.11	119–11	–1–00	120–12	118–27	337,297	578,898
Sep	119–16	119–02	–1–00	119–16	118–20	4,217	94,387
Dec	-	119–24	-	-	-	416	30,342

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	130.75	130.82		130.82	130.62	1739	n/a
Sep	130.70	130.77		130.75	130.70	85	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.06	102.70	–0.56	103.06	103.06	400	6,089

US CORPORATE BONDS

Apr 24	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	104.0441	6.13	–0.01	+0.01	+0.60
NY Tel	08/25	7.00	A+	99.0203	7.08	–0.02	+0.02	+1.14
CWE	05/08	8.00	BBB	110.4098	6.55	–0.02	+0.05	+0.90
FINANCIALS								
GECC	05/07	8.75	AAA	117.2158	6.23	–0.01	+0.03	+0.57
Banc One	08/02	7.25	A+	103.6888	6.24	–0.02	+0.01	+0.61
US West	01/07	7.30	BBB+	106.0676	6.32	–0.02	+0.03	+0.66
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0867	6.14	–0.02	–0.06	+1.02
Wal Mart	05/02	6.75	AA	102.2487	6.11	–0.01	–0.01	+0.49
Dayton Hud	06/21	9.70	BBB+	131.8364	6.91	–0.02	–0.03	+0.97
AGENCIES								
FHLMC	04/07	7.14	N/A	107.7683	6.00	–0.01	+0.04	+0.34
SLMA	02/00	7.50	N/A	103.0298	5.75	–0.02	–	+0.17
FNMA	02/18	6.95	N/A	130.5838	6.23	–0.03	+0.02	+0.29
FFCB	06/05	6.95	N/A	119.1695	5.92	–0.02	+0.02	+0.26
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.1250	0.00	–	–	–
AK Stl	12/01	9.13	BB–	106.5000	0.00	–	–	–
Pacalta	06/04	10.75	B–	103.0000	0.00	–	–	–

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.69
Broker loan rate	7⅛	Two month	-	Three year	5.71
Fed.funds	5½	Three month	5.12	Five year	5.75
Fed.funds at intervention	-	Six month	5.31	10-year	5.78
		One year	5.47	30-year	6.05

INTERNATIONAL BONDS

Apr 27	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO/DM								
EIB	02/07	5.750	AAA	104.6800	5.08	+0.10	+0.14	+0.10
Spain	01/07	5.750	AA	104.0700	5.15	+0.11	+0.16	+0.17
Philip Morris	03/04	5.375	A	101.1900	5.13	+0.07	+0.12	+0.45
Finland FRN	09/02	3.570	AA	100.0288	4.08	+0.04	+0.13	–0.30
EURO FFR								
Austria	01/04	5.500	AAA	103.4200	4.80	+0.07	+0.13	+0.08
Abbey Nat	02/04	6.000	AA	106.4700	4.89	+0.04	+0.10	+0.17
Cred Foncier	02/04	9.125	A	119.7700	5.10	+0.08	+0.10	+0.30
SCF FRN	12/01	3.625	AA–	99.8288	4.29	+0.08	+0.13	–
EURO LIRA								
EIB	09/07	7.000	AAA	112.5500	5.16	+0.08	+0.08	+0.04
Abbey Nat	02/02	6.800	AA	106.5000	4.88	+0.08	+0.07	+0.14
Walt Disney	06/00	6.625	A	107.3500	4.81	+0.08	+0.09	+0.32
EIB FRN	09/01	5.356	AAA	100.1186	4.53	+0.10	+0.21	–0.10
EURO £								
EIB	12/07	7.625	AAA	108.7651	6.23	+0.11	–	+0.28
Dresdner Bk	12/07	7.750	AA–	107.0593	6.72	+0.11	–0.04	+0.75
British Gas	03/00	7.625	A+	101.0657	6.99	+0.13	–0.12	+0.33
Abbey Nat FRN	09/02	7.713	AA	99.9754	6.16	+0.12	–0.10	–0.17
EURO $								
EIB	04/07	7.250	AAA	107.4100	6.15	+0.09	+0.08	+0.39
ABN Amro	06/07	7.125	AA–	104.0339	6.53	+0.11	+0.07	+0.76
Quebec	01/07	7.000	A+	103.7556	6.43	+0.11	–	+0.96
Citicorp FRN	02/04	5.734	A+	99.8942	5.98	+0.11	+0.09	+0.20
EURO C$								
Bayer L–Bk	06/04	9.800	AAA	119.3804	5.73	+0.04	–0.01	+0.15
Toronto	05/04	8.500	AA+	114.1334	5.66	+0.06	+0.02	+0.10
Bell Canada	07/99	10.625	A+	105.6458	5.82	+0.03	+0.09	+0.99
Deutsche B FRN	03/02	5.875	AAA	101.2042	5.66	+0.04	+0.07	+0.07
EURO YEN								
World Bank	03/02	5.250	AAA	115.5434	0.91	–0.02	–0.21	+0.16
Spain	03/02	5.750	AA	118.3000	0.94	–0.02	–0.19	+0.19
Cred Foncier	08/02	4.750	A	113.7561	1.41	–0.02	–0.20	+0.66
Italy FRN	07/99	0.711	AA	100.3617	0.15	–0.03	–0.14	–0.10

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

	Low coupon yield Apr 27	Apr 24	Yr. ago	Medium coupon yield Apr 27	Apr 24	Yr. ago	High coupon yield Apr 27	Apr 24	Yr. ago
5 yrs	6.05	5.97	7.36	6.15	6.05	7.42	6.16	6.08	7.46
15 yrs	5.87	5.76	7.75	[illegible]	5.79	[illegible]	5.99	5.89	7.63
20 yrs	5.87	5.76	7.81	5.88	5.78	7.80	5.89	5.88	7.83

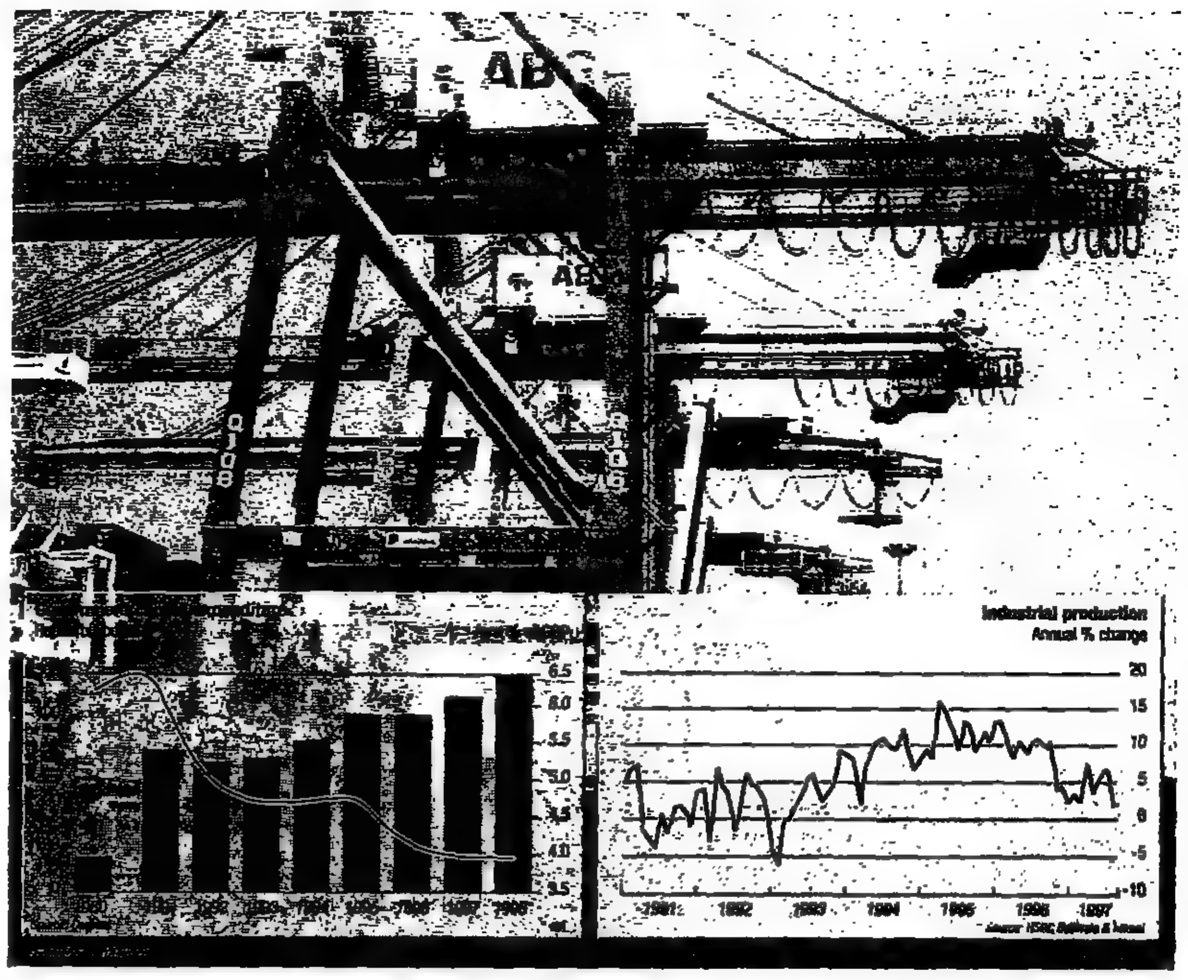
Price indices (UK Gilts, Index-linked), FT Fixed Interest Indices, UK GILTS PRICES and Other Fixed Interest: [illegible]

هكذا من الأصل

INVESTING IN INDIA

Having escaped the fury of Asia's financial crises, India has much to do to escape the claws of economic stagnation. **Krishna Guha** reports

The patient needs more treatment



On his first day in the job as India's new finance minister Yashwant Sinha observed "all is not well with the Indian economy."

His comment is timely. India escaped the full fury of the Asian financial crisis but it is in increasing danger of slipping back into a quagmire of economic stagnation.

The country's growth rate – above 7 per cent for the previous three years – fell to just 5 per cent in the financial year to March 31. Some economists are predicting a further decline this year. More bullish forecasts depend on a good harvest boosting agricultural output.

Meanwhile, falling revenues from taxes and asset sales pushed the fiscal deficit up to 6 per cent of gross domestic product compared with a budget target of 4.5 per cent.

Significantly, however, few economists are calling for spending cuts. There is a new consensus that the fall in growth must be reversed first.

"Growth is crucial," says Vikram Gandhi, president of Morgan Stanley India, adding that it would only come through "pump-priming the economy".

The extent of India's slowdown caught observers by surprise. Last year saw a number of false dawns – a tax-cutting budget, cuts in interest rates, rising rural incomes, and hikes in public sector pay which many analysts thought would boost demand. But growth did not pick up, suggesting that the downturn is more structural than cyclical in nature.

"Public and private investment has not recovered after dipping in 1996," says Raja Chelliah, chairman of India's National Institute of Public Finance and Policy. "The impulses which run an economy at a fast pace are missing."

One explanation is a reduction in government investment in infrastructure. Government capital expenditure fell from almost 6.5 per cent of GDP in the financial year 1991 to less than 4 per cent in 1997, according to Caspian Securities.

Falling public investment may have discouraged private investment. A study by HSBC Batlivala and Karani suggests that the two forms of investment have a strong historic correlation in India, where private companies traditionally invest in anticipation of government contracts.

Many economists now argue that it was a mistake to reduce public investment. They say the new government should concentrate on improving the quality of spending rather than try to cut the deficit at all costs.

International institutions estimate that India spends 14 per cent of GDP on explicit and implicit subsidies. The vast public sector is a huge drain on funds; excluding the profitable oil and gas companies it has a negative return on capital.

India's new government – led by the Hindu nationalist Bharatiya Janata party – has promised to re-examine public spending, target subsidies more carefully, and push ahead with disinvestment as part of a strategy of "restructuring the public sector".

But the most prominent feature of its economic policy is a pledge to kickstart the economy by spending more on infrastructure and clearing private sector power projects.

The problem is that reorganising spending may take a long time. In the meanwhile, economists fear that the BJP-led coalition may relax its grip on the fiscal deficit.

This would be damaging in a country where there is always political pressure for more spending. The former United Front government, for all its mixed record, was relatively hawkish on the deficit and tackled the thorny issue of oil price reform.

India cannot afford to borrow more. Interest costs already take up a quarter of government spending, and the proportion is rising.

S.S.Tarapore, former deputy governor of the Reserve Bank of India, says: "The much talked-about internal debt trap has finally arrived." As India's growth rate falls below the real cost of funds, the government's ability to service its debts diminishes. The debt trap is a big long-term worry.

In the short term India pays for its fiscal deficit in the form of high real interest rates. This is an alternative – not incompatible – explanation for low private sector investment.

"High real interest rates are the major problem for the Indian economy," says Surjit Bhalla, president of Oxus Research and Investment. On paper India's real interest rate is 8 per cent, but most companies borrow at real interest rates of 10 to 12 per cent.

High real interest rates are compounded by inefficient intermediation. Here India's recent track record is quite good – market reforms, in particular, have brought efficiency gains – but much work remains to be done.

Poor exports compound the downward pressure on growth from falling investment in the domestic economy. India's exports increased by only 2.4 per cent in dollar terms in the first 11 months of the last financial year, compared with growth rates of more than 20 per cent in the mid-1990s.

The country's share of world trade – less than 2 per cent – is still lower than it was as an ex-colony in 1960.

Mr Bhalla says the rupee – which fell about 10 per cent last year against the dollar – is overvalued. Others fear the advantages of a cheaper rupee would be outweighed by the cost of imports, particularly oil, and of foreign commercial borrowings. But all agree that poor infrastructure is the fundamental impediment to trade.

Foreign investment banks expect the rupee to decline by a further 10 per cent this year. None, though, foresee an Asian-style currency crisis. India has foreign currency assets of about $25bn, compared with portfolio investment of between $7bn and $8bn and $7bn of short term deposits by non-resident Indians.

Low public investment, high real interest rates and poor exports help explain the cries of pain from corporate India. But they only give half the story.

Indian industry is also facing unprecedented competition following deregulation and tariff cuts, aggravated by a crisis of overcapacity. The result is enormous pressure on margins as globally competitive plants set up after 1991 drive a whole generation of inefficient facilities out of business.

While sectors such as computer software continue to boom, losers outnumber winners and there is little incentive to invest.

The BJP, unlike its predecessor in government, has a clear agenda to promote the interests of Indian industry. Hence the slogans of "swadeshi" (self-reliance), "microchips yes, potato chips no", and "internal liberalisation before external liberalisation".

This should not be dismissed out of hand. Recent research suggests that the benefits of reform have so far gone entirely to the Indian consumer. Industry has experienced rising input costs, a loss of pricing power, and continued meddling from bureaucrats. Mr Sinha's promise to "do away with all the internal unnecessary controls that exist for Indian entrepreneurs" is wholly welcome.

Shekhar Datta, former president of Greaves, the industrial company, says Indian industry needs reform of local state taxes, lower duties on imported raw materials, labour reform and cheaper power if it is to compete on a level playing field with multinationals.

But the new government can ill afford to raise tariffs if it wishes to grow trade. Economists are justifiably alarmed at the intention to "discourage foreign direct investment in non-core areas." India requires more foreign investment, not less, if growth is to recover to 7 per cent.

There are any number of objections to this policy. India needs investment in labour-intensive industries to generate jobs. It needs new entrants to compete with incumbent multinationals. It needs a food processing industry to improve agricultural productivity. It needs foreign investment in consumer goods to boost exports. Above all, however, India needs competition from global companies to improve productivity and quality of investment. This link between competition and growth is not recognised in government policy to date.

"India showed how you could increase the savings rate and not grow faster," says Mr Bhalla. "Growth comes through increasing productivity, not through increasing the quantity of savings and investments."

The irony is that private sector productivity is increasing fast today as companies restructure to compete with the best in the world. The odds are that the government, influenced by senior civil servants and disciplined by the market, will stick to token gestures of protection which will do little harm and may restore industrial confidence.

But wild rhetoric is itself very damaging. And if the BJP was to chart a new corporatist path, India's long-term prospects would dim. The downside risk is not a crash but a return to the much-derided "Hindu rate of growth" – a tragedy for a country which has one-quarter of the world's poor population.

"A 4 per cent or 3 per cent rate of growth would be a shame and a failure," says Mr Chelliah. "It would give us no chance of eradicating poverty."

INTERVIEW WITH THE FINANCE MINISTER

'We will have to look for a better balance...'

Yashwant Sinha, a former senior bureaucrat, is a comparatively new member of the Bharatiya Janata party that leads India's coalition government. The 51-year-old has assumed the finance ministry portfolio for the second time. He held the post during the seven-month Chandrashekhar government of 1990-91, but the administration fell before Mr Sinha was able to present his budget. The new minister has promised to deliver a full budget by late May or early June. He spoke to Mark Nicholson in Delhi about the budget plans and the shape of government economic policy. The following are extracts from the interview.

Q: What will be the chief thrusts of your forthcoming budget?

A: There are some problem areas and we will have to tackle them. One is to look for a better balance between revenue and expenditure in the government's budget. There will be an emphasis on the reduction of two kinds of deficit, the first is the revenue deficit and the second is the fiscal deficit. I shall try do my best on this front – in other words, try to recapture the macro-balances in the budget.

The second is at the same time to take steps to arrest the slowdown in our economy by encouraging the private sector – which includes the foreign sector – to take up large projects and also ensure that we take up some of these projects in the public sector. Which means step up investment in the core areas of the economy and the infrastructure sector.

The third priority area ... is to carry on the work to step up our exports, which have not done very well in the past year.

There is a need to streamline government expenditure – we are probably spreading our expenditure too thinly over a very large area, over a very large number of projects. I intend to have a very close look at that in order to ensure that the expenditure is really targeted not only for the purpose but also the people that it is meant.

Your government has made many spending promises, but you have already inherited a fiscal deficit of 6 per cent of GDP. Are you more inclined to increase spending to kickstart the economy than to keep the deficit down?

I am committed to kickstarting the economy, but at the same time I am committed to ensuring stability in prices. So I will have to see how best I can balance expenditure with control of inflation. It will be a fine balancing act.

How do you intend meeting your commitment to increase investment on infrastructure?

We have a number of projects in the private sector which have been held up for some little clearance here or there, especially in the power sector. We propose to expedite these clearances. The second area is that we have a shelf of schemes. My effort will be to see that whatever is ready to take off is given the green signal. In many cases it is possible to arrive at financial closures on the basis of funding outside the budget – it is not necessary for me to provide for them in the budget, even if these projects are in the public sector.

Third will be some earmarking of expenditure in the budget for certain activities which cannot go for market borrowing at this time. And fourth will be the area of rural infrastructure, where I want to give a real push, and for which there will be no paucity of funds. We have a good shelf of schemes.

You have a target for Rs50bn in public sector disinvestment for the next fiscal year. Might you be tempted to increase that? Will you revive some of the global depository receipt offerings which were either pulled or deferred last year?

No, our experience has not been very encouraging on that front. But I propose to start action very early in the year on this front. Still, I'm not sure we'll be able to increase the target.

Much depends on the situation in the international markets. If the volatility is reduced and markets become more stable and we can go into the markets profitably, we plan to do that. We will continue with the present policy [towards international equity offerings].

Do you intend liberalising the state-dominated insurance sector?

We have said from time to time that we are in favour of opening the Indian insurance sector to the Indian private sector. We are not yet ready to open it to the global players. That continues to be our policy.

On exports, what is your diagnosis for their recent weakness?

There are external as well as internal reasons. There has been a slowdown in our economy, which has influenced exports and influenced imports. The second is that we have to do much more by way of encouraging exports by simplifying our very complicated procedures. On the external front, world trade has slowed down, there has been volatility in the east Asian economies. All that has impacted India.

What will be your currency policy? Some in your party have suggested the rupee should appreciate.

The only statement I can make on this is that we are for orderly conditions in the currency market. We would not like to have conditions where there is a run on our currency. The rupee is exposed to market conditions and the Reserve Bank of India is concerned only with orderly conditions. That policy will continue.

What is your message for foreign investors?

That we are as normal human beings as any other. We are not out of some other planet. We are not Hindu nationalists as newspapers in the west tend to describe us. And we believe in the continuity of government policies. We are committed to economic reforms. We will carry forward the process of internal liberalisation much faster.

We have said that we will have to calibrate external liberalisation to ensure that the Indian economy is not thrown out of gear. We are ready to welcome foreign investment in a very big way in sectors which we feel it has a major role to play. We don't have any negative feelings about it.

At the same time, there are domestic concerns from which we cannot turn away, and that is increasing our rate of domestic savings, creating increased employment opportunities for our unemployed youth, and providing a better quality of life to our rural people.

These are some of the concerns we would not like to ignore at any cost. While we globalise, liberalise and encourage all kinds of economic activity, we would like the state to play a strong and effective role in ameliorating the conditions of the people. And that is where I think our policies will be markedly different from the policies of the two previous regimes. It is our feeling that in our anxiety to carry the economic reforms process, we somewhere down the line lost the human touch.

Yashwant Sinha: 'I am committed to kickstarting the economy' Photo: Sophie Whitfield

RESTRUCTURING CORPORATE INDIA • by Krishna Guha

A painful revolution is gathering pace

Pressures of foreign investors lead family groups to review strategy

Focus is the new buzzword in Indian business. It is the guiding principle of a painful corporate revolution as India's sprawling family-run conglomerates attempt to transform themselves into competitive businesses, with mixed enthusiasm and success.

This change – driven by assertive foreign investors and unprecedented competition – is gathering pace following tariff cuts, deregulation and the new threat of hostile takeover. It is not irreversible, and could yet be smothered by a heavy dose of protectionism.

But, if followed through, it will amount to nothing less than a total refashioning of the corporate India which emerged from five decades of the "licence raj".

S.D.Kulkarni, chairman of the Larsen and Toubro construction group, says: "Under the old system you were not given the licences needed to expand in your core area, so in order to grow you had to diversify. Liberalisation has given freedom to expand in your area of core competence and much greater opportunities to do so."

Today the "promoters" (founding shareholders) who control most of India's private sector companies are learning to recite the mantras of shareholder value.

"We plan to exit industries where we are not dominant or cannot add value for shareholders," says Kumar Mangalam Birla, chairman of India's second-biggest corporate family, the Aditya Birla group. "In the next five years you could see us getting out of some industries."

The main beneficiaries of this desire to re-evaluate core activities to date have been management consultants rather than shareholders. Almost all India's big conglomerates have engaged teams of management consultants, including the country's biggest corporate family, the Tatas.

The Tata group of more than 40 companies spanning software, tea, cars, watches, radio, power, hotels, cement, steel, chemicals and telecoms, hired McKinsey to draw up a new strategic blueprint.

Ratan Tata, chairman of Tata Sons, has begun to implement some changes, shaking up Indian Hotels and agreeing to sell the group's cosmetic interests – Lakme – to Hindustan Lever.

But rhetoric has so far run ahead of reality. No big industrial group has yet disentangled the web of corporate cross-shareholdings which bind group companies, a complex task and one which opens individual companies to takeover.

This is further complicated by a lack of central control over the management of group companies. This was the root of last year's bitter clash between Mr Tata and Ajit Kerkar, then chairman of Indian Hotels.

Few tough decisions have been taken. The A.V.Birla group still contains several cement companies, for instance, which compete against each other.

As a result, the incumbent conglomerates are far less focused than India's new generation of entrepreneurial companies, such as Ranbaxy (pharmaceuticals), Punjab Tractors, and Infosys (computer software), which trade at higher price-earnings multiples on India's stock markets.

Indian group companies still bail out their weaker brethren to the detriment of minority shareholders, and the biggest shareholders in India – the state-owned Unit Trust of India, Life Insurance Corporation and General Insurance Corporation – generally turn a blind eye.

There remains a fundamental difference in perspective between investors who buy into individual companies and industrialists who consider constellations of companies as family property, compounded by lack of transparency in accounts.

Nonetheless, change has taken place. Larsen and Toubro has spun off its computer services arm, is looking for a buyer for its shipping fleet, and has formed joint ventures for its construction equipment division.

Focus alone is not enough. Indian industry must meanwhile grapple with the urgent need to overhaul – or replace – an entire generation of fundamentally uncompetitive facilities which pre-date the start of liberalisation in 1991.

Where it has taken place, internal restructuring is paying dividends. Bajaj Auto, India's biggest manufacturer of scooters, motorbikes and three-wheel vehicles, has built a new plant in Pune which will enable it to speed up the introduction of new models, a key competitive tool in the battle with foreign joint ventures. Mahindra and Mahindra, India's biggest utility vehicle and truck company, increased output at its utility division from 68 vehicles a day to 110 after introducing Japanese-style manufacturing techniques.

Last month the Mahindra family conceded majority control of its car joint venture to Ford of the US in order to preserve funds for investment in trucks and utilities. But the group remains plagued by labour trouble.

J.Rajagopal, managing director of Coopers and Lybrand India, points out that this is "not re-engineering as it is known in the west". India's old manufacturing companies are chronically overstaffed, but exhaustive labour laws and powerful unions make it more or less impossible to lay off workers.

Instead, many companies are adopting voluntary retirement schemes to slim down. This helps in the long run but does not enable corporate India to respond swiftly to competitive pressures, or to cut costs and protect profits in current slow-down.

Hence the chorus of appeals for help from India's new government. Analysts fear there will be "backsliding" if India slows its tariff cuts and discourages foreign competition. Most industrialists would prefer to avoid taking tough decisions if possible.

Domestic liberalisation, moreover, creates its own temptations. Companies such as Reliance and Larsen and Toubro are pushing into power, while the Tatas hope to set up a domestic airline. Fierce competition acts as a useful discipline today. But if the new government goes too far in cosseting Indian industry the country could witness a new generation of empire building – and talk of focus could yet prove a passing fad.

M&A • by Krishna Guha

Corporate shock-waves

Industrial logic adds pace to glacial rate of consolidation

Takeover fever has gripped India's business world after a flurry of activity in the cement, aluminium and pharmaceutical sectors. The deals include a hostile bid by India Cements for Raasi Cement and a battle for control of Indal between Sterlite Industries and Alcan, Indal's Canadian parent.

The deals may be small by international standards but, coming shortly after the Securities and Exchange Board published its new takeover code, they have sent shock-waves through a cosy and proprietorial corporate community.

Analysts believe the bids indicate that the glacial pace of consolidation in Indian industry is speeding up under the pressure of fierce competition and a slowdown in growth.

They are driven by a common industrial logic: it is cheaper to buy than build when shares in less efficient companies are badly depressed. Buying avoids adding to overcapacity.

N. Srinivasan, managing director of India Cements says it would cost "at least Rs10bn" to build new plants with output of 3.5m tonnes a year – equivalent to the capacity of Raasi Cement and its associate Vishnu cement. Mr Srinivasan won control of Raasi at a cost of about Rs4bn.

Investment bankers believe more hostile bids will follow. "It is very interesting," says Vikram Gandhi, president of Morgan Stanley India. But he adds: "We are not going to see a tonne of them."

Sterlite and India Cement have demonstrated it is possible to make hostile bids, but also that it is difficult to succeed. Sterlite looks unlikely to win control of Indal in which Alcan already holds a large stake.

India Cements succeeded by splitting the "promoters" – or founding shareholders – of Raasi but still faced delaying action in the courts and an attempt to sabotage the deal by shifting assets to other group companies.

Mr Gandhi says mergers and acquisitions would proceed largely on the basis of "willing sellers and willing buyers". Foreign companies in particular find it difficult to buy without express invitation.

Imperial Chemical Industries of the UK, which last year bought a 9 per cent stake in Asian Paints, has still not been able to take possession of its shares.

If, as expected, India soon passes a revised companies act allowing share buy-backs, hostile takeovers could become even more problematic.

India's "promoters" regard buy-backs as a way of warding off a hostile predator rather as than a means of increasing earnings per share.

There are obstacles even to a friendly acquisition. The banks refuse to finance share purchases which appear to fall foul of Reserve Bank of India guidelines but are allowed to finance purchase of assets.

PRIVATISATIONS • by Krishna Guha

Home market favoured

Hope renewed after a year of disappointments in the Asian markets

Privatisation – this time with a "swadeshi" (self-reliance) flavour – is back on the agenda after a disappointing year in which planned asset sales were torpedoed by the Asian financial crises and the fall of the country's United Front government.

The outgoing government aimed to raise Rs70bn by selling shares in state-owned enterprises but in the event raised only Rs9bn.

"The disinvestment process should continue," says Yashwant Sinha, India's new finance minister, adding that proceeds should be used to retire debt and restructure public sector enterprises.

The ruling Bharatiya Janata party's (BJP) ideological wing, which distrusts the secular public sector, supports an aggressive push.

"We will go faster on disinvestment," says K.N.Govindacharya, general secretary of the BJP. But Mr Govindacharya said the BJP would prefer "the domestic route" – selling shares on India's equity markets – to issuing global depositary receipts quoted in London, the principal route of disinvestment to date.

D.R.Mehta, chairman of India's Securities and Exchange Board, also favours greater emphasis on the domestic market. "Public sector disinvestment should be largely in India," says Mr Mehta. India should learn from the "British experience" and "sell shares in small lots and at a discounted price" to retail investors.

This would enliven the country's moribund primary market, support its vast network of retail stockbrokers, and ensure a large domestic free float of shares.

Last year's sale of shares in Corporation Bank – at an attractive price in the domestic market – could be a model. But Corporation Bank was a tiny issue. India's shallow stock markets could be depressed by oversupply of shares.

To avoid a glut the government would have to entice retail savers to buy disinvestment stock. It could also encourage India's public sector insurance companies to buy more equities, perhaps by relaxing investment guidelines.

Even so, domestic disinvestment has its disadvantages. A retail offer is time-consuming and expensive to administer. Any discount means less money to repay debt. Mr Sinha is understood to favour issuing GDRs in tandem with domestic public offers.

The list of companies chosen is likely to resemble closely that drawn up by the outgoing government on the basis of advice from the disinvestment commission.

The probable list includes Indian Oil, Gas Authority and Container Corporation (scheduled for partial disinvestment last year), plus a second (domestic) tranche of Videsh Sanchar Nigam (VSNL).

Limited foreign investor appetite for Asian equities will act as a constraint. "Investors are considerably more cautious in 1998 than they were in 1997," says Roddy Sale, head of Jardine Fleming's Indian GDR team.

He said the most saleable stocks were defensive quasi-monopolies: Indian Oil, Container Corporation, Gas Authority and VSNL fit the bill.

"I think you could do $1bn to $1.5bn over 12 months if the pricing was friendly and the issues well-timed," says Mr Sale.

However, while disinvestment in these profitable companies is likely to spur further efficiency gains, it will do little to resolve the chronic problems of the state sector which lie elsewhere.

For all the BJP's private sector instincts, no one expects full-scale privatisation of India's lossmaking public sector, which employs millions of unionised workers. The ruling coalition is too fragile to take on trade unions, and few of these enterprises are attractive to investors.

Fundamental reform of the public sector therefore hinges on Mr Sinha's plan to use receipts from asset sales to "rehabilitate sick public sector units". Providing such funds were used to restructure, and not bail out unviable plants, it is a sensible proposal.

But given the size of India's revenue deficit – and the political difficulty of cutting subsidies – it is going to be very difficult to avoid using receipts to pay for current expenditure instead.

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Corporate shock-waves

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THE THREAT FROM ASIAN IMPORTS • by Krishna Guha

Competition adds to dangers of overcapacity

Industrialists are already clamouring for protection against dumping

The threat of low-cost competition from the crisis-hit economies of eastern Asia comes at a dangerous time for Indian industry, which is already suffering from chronic domestic overcapacity. In many sectors supply of basic commodities such as cement and steel exceeds demand.

Final results for the corporate year which ended on March 31 are expected to show weak prices and lower operating profits in most heavy industries, even though many are recording rising sales. This is the *hangover from a construction binge* of 1992 to 1996 when companies flush with cash from their first international debt and equity offerings ploughed money into fixed assets.

This capacity has now come on stream. Cement capacity, for instance, increased from 65m tonnes to 95m tonnes in the last three years. Demand, by contrast, is growing at a rate of about 9 per cent a year.

"When people cry about demand what they are really saying is there is not enough demand for the additional capacity," says Rajashekar Iyer, head of research at Kotak Securities.

Corporate India is only now learning to shed its old assumptions that the strength of a business is determined by the amount of its fixed assets, and that there would always be demand for whatever was produced.

In this new era of overcapacity and inefficient plants – many set up by blue-chip conglomerates before liberalisation in 1991 – are slowly being driven out of business *by new state-of-the art facilities*. This is aggravated by sharp increases in the cost of many inputs, such as coal and power, which are controlled by the state.

"Now the pain is going to trigger a shake-out in the corporate sector," says Chetan Ahya, economist at Caspian Securities.

The current spurt of merger activity is prompted by overcapacity, but it will not reduce these excesses. A Caspian Securities study estimates overcapacity of 26 per cent in hot rolled steel, 39 per cent in aluminium sheets, and more than 30 per cent in polyester staple fibre. It also shows huge overcapacity in trucks, cars and hotels. More contentiously, the study suggests that the overcapacity problem will remain acute during the next financial year.

The Asian crisis – falling demand and the threat of low-cost competition from countries with sharply devalued exchange rates – will put further pressure on many industries. "Any commodity producer is going to be under pressure," says Vikram Gandhi, president of Morgan Stanley India.

Analysts say the cement, steel, aluminium, petrochemicals and capital goods sectors will be worst hit. In *most cases the actual* volume of imports is small but domestic prices move in tandem with international prices.

Industrialists are clamouring for protection against dumping. "How am I to compete?" says S.K. Birla, director of the Birla group. "There are ships carrying Indonesian cement in the docks at Calcutta; it has never happened before. "Cement is relatively sheltered. Transportation costs are high, the ports are ill-equipped to handle large volumes, *and distribution* in a country where most cement is bought by the bag is difficult. Kiran Nanda, chief economist of Gujurat Ambuja Cements, a low-cost producer in the west of India, furthest from Indonesia, says the Asian crisis would make "no difference at all".

Steel is much more vulnerable to competition from Korea's Pohang Iron and Steel. India's two biggest steel companies – the public sector Steel Authority of India (Sail) and private sector Tata Iron and Steel (Tisco) – are likely to lose valuable export orders and vital industrial contracts at home. Both companies are overstaffed and have many outdated plants.

"Sail has lost half of its balance sheet already," says Sanjeev Mohta, head of research at HSBC Batlivala & Karani. Korean competition could "wipe out the other half", forcing an *expensive bail-out. Smaller* producers such as Essar and Jindal are vulnerable.

Aluminium is also exposed. "It is much easier to ship aluminium than cement," says Kotak's Mr Iyer. But he says India's two aluminium giants – National Aluminium Company (Nalco) and Hindustan Aluminium (Hindalco) – are "low-cost, globally competitive producers" which can absorb falling prices.

The petrochemical industry also faces falling prices, which analysts say will hit Reliance Industries and Indian Petrochemicals (IPCL). However, the integrated producers, which operate at world-class scale, are less vulnerable than smaller producers.

"Reliance works on a conversion margin," says Tony Tassell, head of research at Caspian Securities. "Petrochemical prices may fall, but if naptha prices fall its input costs go down, too."

Capital goods producers face a bleaker future. Low-cost exports from troubled Asian economies will bring some benefits to Indian industry. Reliance, for instance, has been offered cheap Korean steel for its new petrochemical plants. But the main impact – at a time when industrial investment is flat – will be to intensify the problems of industries where overcapacity is already extensive.

Inherently strong companies such as Gujurat Ambuja, Hindalco and Reliance will ultimately emerge from the death-throes of the rest of India's heavy industry in a stronger market position. However, the current trauma is leading some observers to question whether India's future lies in heavy industry and an industrial business culture.

"The sense I get when I look at most Indian industry is that it does not own brands," says Uday Kotak, vice-chairman of Kotak Mahindra.

A handful of Indian companies, such as Marico (edible oils) and Nirma (detergents), do. Others, such as Birla and Gujurat Ambhuja cement, are trying to build them. But almost all valuable brands in India are held by the subsidiaries of multinational companies such as Hindustan Lever, part of the Unilever group and India's biggest company.

Investors are already picking their candidates for the new generation of corporate India's leading companies. If their selections are correct the list will be less weighted than before towards industrials and will include consumer goods groups, pharmaceutical companies and emerging software giants.

India's software sector has trebled its market value since the start of 1997; Infosys, a software exporter, is now worth more than Associated Cement Company – India's biggest cement producer. It is a sign of the times.

BANKING • by Krishna Guha

Bad debts are still posing problems

The existence of small concerns is threatened as margins are eroded

Compared with the collapsed banking systems in parts of south-east Asia, India's financial sector looks sound. But it remains a rickety structure.

On the plus side, India's commercial banks have little exposure to foreign currency debt, real estate or equities, as a result of conservative regulation by the Reserve Bank of India (RBI). The country's finance companies did lend to real estate and equities – but in the context of a weakening economy which left little room for an asset price bubble. The RBI has since clamped down on them.

An Asian-style banking crisis is, therefore, hard to envisage. But India's financial sector still faces enormous challenges in the form of bad debts and competition, which threaten the existence of many small and inefficient banks.

The cost of intermediation in India is among the highest in the world with a net interest margin of about 350 basis points. Many Indian banks are barely viable at this level and face a bleak future as competition eats into margins.

If the economy continues to slow there is a risk that these problems could become systemic, putting pressure on the government and India's top banks to bail out the weak.

Indian banking is best understood as an industry in transition from state control to market competition. Until recently, the financial sector was strictly segmented by regulation. "Commercial banks took deposits and gave working capital loans, development financial institutions gave long-term project finance, and non-bank *financial companies*, or near-banks, were unregulated," says Deepak Parekh, chairman of Housing Development Finance Corporation, and deputy chairman of the RBI's Narasimham committee on banking.

The first phase of deregulation – now largely complete – dismantled many of the barriers between financial institutions and banks and allowed both to take part in many activities previously excluded from the regulated sector.

"Financial institutions are now giving working capital loans while commercial banks are offering term loans," says Mr Parekh. Foreign banks and new private sector banks have been allowed to enter the market.

Meanwhile, the RBI took steps to deregulate interest rates and reduce the onerous statutory requirements on banks. Even today, banks only have complete freedom to lend about one-quarter of their assets; the rest is accounted for by statutory liquidity requirements, the cash reserve ratio, mandated lending to "priority sectors" and obligatory food credit.

But even limited liberalisation has resulted in an unprecedented increase in competition.

"Margins on lending are falling," says M.S. Verma, chairman of State Bank of India, the country's biggest bank. He says the correct response is to cut costs, computerise and "increase the range of products and services on offer".

The Reserve Bank is shepharding the sector along – helping banks to put vastly improved prudential norms in place, and mark assets to market. The central government has also provided paper funds to recapitalise some banks.

But improving efficiency is a daunting task. Indian banks suffer from outdated technology, poor risk management, overstaffing and militant unions.

Most are saddled with large historic non-performing assets – probably closer to an industry-wide figure of 20 per cent of total assets (gross) than the reported 18 per cent – and many are still undercapitalised.

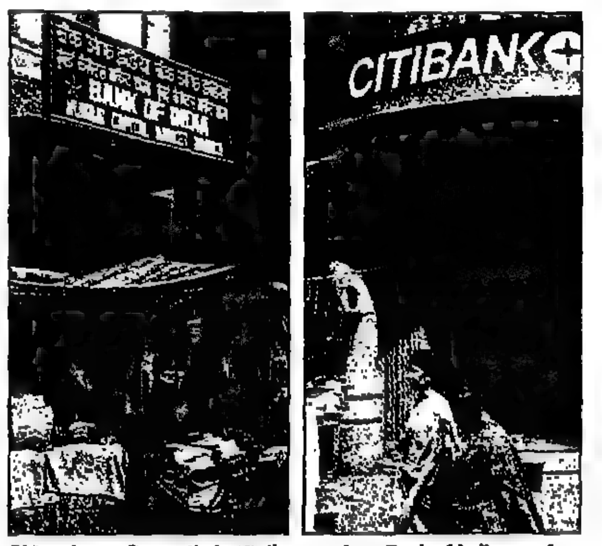
Weak bankruptcy laws and a log-jam in the courts mean that banks are still chasing debts which defaulted a decade or more ago. And while provisioning has improved dramatically, bankers say that *balance* sheets still conceal hidden losses.

Some of India's smaller banks – such as Corporation Bank – appear able to adapt and compete. Others will not. "I can think of four or five banks which have negative worth today and continue to take deposits," said Mr Parekh. *Most of India's* 280 banks are probably unviable in the long term.

The Narasimham committee believes that consolidation is inevitable and hopes that India's two giant financial institutions – Industrial Development Bank and Industrial *Credit and Investment* Corporation – will play an active role.

IDBI and ICICI have moved into mainstream banking – shorter-term loans and retail funds – in response to liberalisation and an end to cheap government-backed finance. Both have launched big retail bond issues in recent months, but to tap the amount of money they need they may have to build a retail network on the ground.

ICICI took over ITC Classic, the troubled financial services arm of Indian Tobacco Company, last year. "ITC Classic gave me a distribution network with 1 million depositors," says K.V. Kamath, managing director of ICICI. However, neither IDBI nor ICICI seem particularly keen on merging with mid-sized commercial banks.



Old and new: Domestic institutions such as Bank of India now face foreign competition from the likes of Citibank Photos: Sophie Whitfield

"In the Indian context it is much easier to build *de novo*," says Mr Kamath, adding that there was little merit in taking on a creaking network of branches, hidden bad debts and union trouble. "Even a strategic merger would have to add products or capital," he says.

State Bank, IDBI and ICICI are lobbying hard to ensure they are not forced to take over banks they do not want. "There has to be a sanction for failure," says Mr Verma. He believes that one of the lessons from the past year's Asian financial crises is that "an unsustainable institution must be allowed to fail".

The Narasimham committee supports this line. "Our experience has been that this does not work in India," says Mr Parekh. But the alternative – closing failed banks – is fraught with political complications.

A big shake-out has already begun in India's non-banking financial sector. These finance companies – which were not regulated by *the RBI – recorded explosive* growth in the early 1990s.

"They are the ones which got into trouble in south-east Asia," says Mr Parekh. After a string of high profile failures, the RBI imposed harsh capital adequacy requirements which will force more than half the 40,000 finance companies out of business.

The mainstream view is that this clamp-down ensures that India will not suffer a major banking crisis. Analysts believe that all but a few banks will gradually return to health as they write off historic non-performing assets.

This judgment may be premature. "We have to view the strength of the Indian banking system in the context of what is yet to happen," says Mr Kamath. He says there is a "deep structural change" taking place in Indian industry as globally competitive *facilities* drive older plants out of business.

"People explain it away as recession – there is no recession; there is structural change." Mr Kamath says. "There will be pain all round, and pain in the banking system."

Financial institutions and banks are exposed to heavy industries where there is overcapacity and threat of dumping. A fresh wave of defaults – if it occurs – would expose existing weaknesses in the banking system. Restructuring, then, could be a *race against time*.

INVESTMENT BANKING • by Edward Luce

A sobering retrenchment

But it is not all gloom for those banks that remain

Bombay's investment banking sector has recently *taken a battering. During* the past six months five leading foreign investment banks have closed down their India offices while several others have pared down their operations.

Although much of the retrenchment can be directly attributed to the effects of Asian flu - from which India has caught a decent-sized cold - the consequences are fairly sobering for Bombay's financial sector.

"*We came here thinking it* would all be "dollar revenues and rupee costs," says one foreign banker. "But the reality was somewhat different."

Of the five foreign banks to have closed their offices at least two – ING Barings and Deutsche Morgan Grenfell – did so with India-specific reasons in mind. The other three – BZW, National Westminster, and Peregrine Securities – are in retreat *from* investment banking *worldwide*.

In addition, J.P. Morgan last month significantly scaled down its Bombay operations after bailing out from a joint venture with ICICI Securities, the investment banking subsidiary of the state development bank. So what does this mean for the dozen or so investment banks which remain?

"*Foreign investment* banks failed to pay attention to expenses," says Deepak Parekh, chairman of the Housing Development Finance Corporation, India's leading mortgage bank. "On top of that there is genuine over-capacity."

On the first point, banks were clearly too sanguine *about the manageability of* "rupee costs" when they set up operations in Bombay in the early 1990s.

Far from being a low-cost base, India's financial centre proved to be one of the most expensive cities in the world. Top of the list was real estate which, owing to Bombay's heavily distorted rent control act and restrictions on high-rise development, remains exorbitant.

Second, a genuine shortage of skilled analysts and local investment bankers resulted in foreign banks quickly bidding up salaries in a scramble for talent. Senior analysts can still command salaries of up to $100,000 in Bombay.

Thirdly, the cost of communication in India remains astronomic. Tariff rates on international telephone calls are among the highest in the world.

The other basic problem was inflated expectations. "Banks saw India *as* the next China and when that didn't happen overnight they found themselves with very high cost bases but little cashflow to justify this," says one foreign banker. "Dollar revenues", in other words, failed to materialise in sufficient volumes. Part of the problem was overcapacity.

Last year no fewer than 26 foreign banks bid for the mandate to underwrite the global depositary receipt offering by MSNL, India's *state-owned* telephone company. There was also fierce competition for the other GDR mandates of VSNL, another telephone company, Gail, the state gas company and the Indian Oil Corporation.

The net result was wafer-*thin margins for the successful* bidders. "India was com*manding the same fees as* South Korea before the Asian crisis struck," *says* Vikram Gandhi, president of Morgan Stanley's India office. "On top of that the leading mandates were split three ways."

In addition, the expected flow of cross-border business slowed to a trickle last year and has yet to show *signs* of life in 1998.

Although the new BJP-led government intends to press *on with reforms, the state* disinvestment programme is unlikely *to* generate high volumes for foreign banks in the near future. The IOC, Gail and the Container Corporation are expected to press on with their international IPOs this year, but few others are waiting in the wings.

On the debt side, India is unlikely to come to the international markets with a *benchmark bond offering in* the near future. The Asia crisis has led to a significant widening of yield spreads over US Treasury bonds for emerging market issuers, and Indian corporations are unlikely to risk overseas dollar offerings while a question mark hangs over the exchange rate value of the rupee.

"There has been genuine overcapacity in the market," says Rajashekar Iyer, head *of research at Kotak Securi*ties, which has a joint venture with Goldman Sachs. "There is not enough cross-border business to go round."

The outlook is not all gloom, however, *for* those banks which remain. For a start, the shake-out has led to a much needed consolidation in the market. Salaries and real estate costs have clearly hit a plateau.

More importantly, the banks which remain are devoting more attention to the domestic market in areas such as mergers and acquisitions, corporate finance and asset management. Morgan Stanley, which recently formed a joint venture with JM Financial, an Indian investment bank set up by Nimesh Kampani, says there are good margins to be had in bread and butter domestic investment banking.

"*It helps to be in a joint* venture with a leading domestic bank," says Mr Gandhi. "There is a lot of business among medium-size corporates in the Indian market which local partners can help to capture." Both Goldman Sachs (Kartak Securities) and Merrill Lynch (DSP) clearly share this view. "Having a local partner also helps to reduce costs," said Mr Iyer.

Others, including Credit Suisse First Boston, which cut its joint venture last year in favour of going it alone, and HSBC, which recently bought out its local broking partner, evidently differ.

Either way, many foreign banks are staying in India for the long haul. "India is the perpetual call [buy] option," says one foreign banker. "At times *it looks* more like a put [sell] option, *but it is worth cultivating* a little patience because when the market takes off you want to be ready."

DEBT MARKETS • by Edward Luce

Bonds shake off the shackles of blandness

Investors are becoming aware there is money to be made by trading paper

Bonds, long overshadowed by the more lively equity market, are finally starting to find favour with Indian borrowers and investors alike.

Last year, for the first time, primary market bond issuance by Indian corporations exceeded the volume of equity offerings on the Indian share market.

With more than $100bn in outstanding bonds – second only in size to the Japanese market in Asia – it has taken a surprisingly long time for a trading mentality to emerge in India. Partly this can be attributed to the fact that more than 90 per cent of the market is accounted for by low-yielding government and quasi-government paper. As such, bonds have always appeared somewhat bland next to India's comparatively frenetic stock markets.

"Indians tend to hold bonds until maturity," says Sanjay Mansabdar, manager of fixed income at ICICI Securities, the investment banking subsidiary of the development bank. "But this is now starting to change."

The pick-up in activity is being driven by two broad trends, one cyclical, the other secular. On the cyclical front, lower prime interest rates over the last two years have stimulated trading in government Treasury bills. The Reserve Bank of India's decision to raise interest rates by 1 percentage point earlier this year has removed some impetus from the market.

Nevertheless, overall liquidity remains strong, partly because the Indian banking sector – one of the largest investors in the bond market – has scant opportunities for lending to the industrial sector. In addition, the equity market is relatively quiescent owing to the glut of initial public offerings earlier in the decade.

As a result, secondary market turnover in Treasury debt is at its liveliest for years although, at just $100m a day , it is still relatively low. "Banks and other investors have caught onto the fact that there is money to be made by trading paper with each other," says Tarun Saigal, head of fixed income trading at ANZ Investment Bank in Bombay.

Structural reforms to the Indian bond market should stimulate more dynamic activity in the secondary markets over the next few years. First, and most importantly, the Indian government is radically altering the way it views the bond market. Although the market is still heavily constrained by regulations, the government is starting to treat the market as something more than just a cash-cow to fund its budget deficit.

"The government has recognised that there are broader strategic advantages in having a deregulated bond market," says one foreign banker. "Not least, it needs an active bond market to finance India's massive infrastructure needs."

As a first step, the government has gradually started to lower the steep liquidity requirements on banks. The cash reserve requirement and the statutory liquidity requirment have been cut from 50 per cent of overall deposits to just 35 per cent in the last two years. This has freed up capital which would previously have been invested in low-yielding – but risk-free – Treasury paper.

Second, the Reserve Bank of India (RBI) is for the first time pricing Treasury paper at something approaching market rates. Although the RBI does not yet operate a completely market-driven auction process, it has appointed six primary dealers to stimulate secondary market activity. The dealers underwrite Treasury offerings and guarantee to provide a liquid market in government paper in exchange for a commission from the RBI.

"The government is slowly moving towards a market-driven system," says Ashish Parthasarthy, head of money markets at HDFC, India's leading mortgage bank.

Although the primary corporate bond market is picking up, it is still severely hampered by the dead hand of government regulation. Corporate bonds are at an automatic disadvantage on several fronts. Unlike Treasury bills, corporate bonds are subject to a 20 per cent witholding tax as well as stamp duty.

In addition, the settlement procedure for corporate debt has not yet been "dematerialised". Because it can take weeks to carry out the physical transfer of bond certificates, the secondary market remains moribund.

To make matters worse, corporate borrowers are constrained by the complete absence of a liquid benchmark in either the fixed or floating rate sector. In the former, the haphazard and opportunistic character of Treasury bill funding has hitherto deprived the fixed rate market of a recognisable yield curve. This will gradually change as the RBI switches to a more transparent issuance programme.

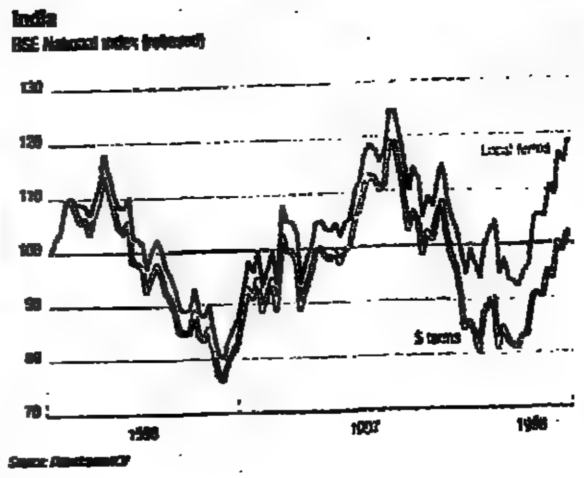
But in the floating rate market borrowers continue to be shut out by the total lack of a reference interbank offer rate. The fact that banks are required to set aside capital against borrowing of more than 14-day maturity means there is no such thing as an Indian Libor rate. The only vaguely liquid reference point is in the highly volatile overnight borrowing market.

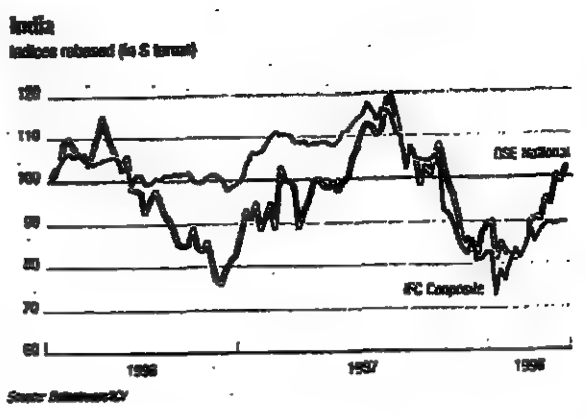
Nevertheless, Indian corporations are increasingly opting to tap funds from the bond rather than the traditional loan market. As a side-effect of the country's rather skewed financial regulations, AAA-rated Indian companies can secure sub-prime funding from the bond market. This is possible because banks can classify bond holdings as investments rather than loans. This enables them to escape the draconian "priority" lending regulations imposed on their loan portfolios.

As such, higher-yielding corporate bonds are becoming increasingly popular with banks. Much, however, remains to be done before the corporate bond market becomes truly liquid. Not least, the government must scrap the requirement that insurance companies invest 75 per cent of their investments in government bonds and quasi-government paper.

Until such reforms are undertaken, the corporate bond market is unlikely to attain its full potential.

C.B.Bhave: 'Switch will reduce transaction costs' Photo: Sophie Winfield





EQUITY MARKETS • by Edward Luce

Paperless settlement woes

But the pain is seen as worthwhile if it leads to greater efficiency

India's stock markets have been hit by a double whammy during the past six months.

First the Asian financial crisis triggered a net outflow of funds from India in late 1997 as investors fled to safer instruments in the developed markets. Despite lingering worries over the stability of the rupee, portfolio funds have since crept back in with foreign investors becoming net buyers again in February.

More worryingly, the stock markets have at the same time been plagued by potentially long-term liquidity problems following the introduction of a paperless share settlement system last year. The creation of a national depositary system – designed to eliminate transaction risk – has effectively split the market between its physical and "dematerialised" parts.

"We knew we were going to face liquidity problems," says Ravi Narain, deputy managing director of the National Stock Exchange (NSE). "But the drop in short-term liquidity is a price well worth paying for the eventual move to an electronic settlement system."

Despite its antiquated profile, the physical settlement system still retains the loyalty of the large majority of India's retail investors who make up roughly 70 per cent of overall turnover. Although it is a sluggish and high-risk settlement procedure (the NSE sorts through more than 2.5m tonnes of certificates a week), retail investors are comfortable with the system and fear loss of liquidity on the dematerialised system.

According to Sanjay Dhamija, head of settlements at HSBC Investment Bank in Bombay, up to 10 per cent of shares delivered under the physical system are faulty. In addition, it can take up to three months for a certificate to change hands, with shares being trucked in to Bombay from all parts. The inefficiencies provide the opportunity to manipulate the physical settlement system by contesting share ownership and delaying transfer of a certificate for up to 18 months.

"Some companies fear the move to dematerialisation because they think it will create an easier climate for takeovers," says Mr Narain. "Basically, the problem stems from inertia and lack of corporate governance."

Another problem is that both foreign and domestic brokerages have a vested interest in maintaining the present system. Most foreign banks benefit from the high margins to be gained from custodial share management in physical settlement.

According to the NSE, about 5,000 are employed in back offices to cope with physical settlement. Most of this infrastructure will eventually have to be scrapped.

The National Securities Depositary (NSD), which is using software developed in Zurich, says the switch to dematerialisation will reduce transaction costs by up to three-quarters. This in turn will be passed onto the investor. "Brokers are going to have to make money from their own efficiency rather than from the inefficiencies of the system," says C.B.Bhave, managing director of the NSD in Bombay.

Anecdotal evidence suggests that the transaction risks associated with physical transfer have deterred big US funds from investing more heavily in India. India's global depositary receipts (secondary share listings on the London stock exchange) trade at a premium of between 20 per cent and 40 per cent to their underlying domestic shares. This is unusually high.

Few, therefore, disagree with the need to move to dematerialisation. But, in practice, persuading retail investors to make the change is proving a real headache. "It is a catch-22 situation," says Mr Bhave. "Once we have achieved a critical mass retail investors will switch to the dematerialised system in droves. The problem is how to achieve that critical mass in the first place."

On January 15 the Securities and Exchange Board of India (Sebi) mandated institutional investors to settle eight leading stocks, including ICICI – one of India's leading development banks – and the State Bank of India, on a dematerialised basis. Predictably enough institutional investors were unable to find any buyers.

As a result, since April 6 Sebi has allowed institutional investors to sell shares in the eight stocks in both the physical and the dematerialised sector. The shares, in other words, count as good delivery in either segment. This, it is hoped, will stimulate liquidity.

"We think we will see real liquidity in 'demat' by the end of 1998," says Mr Bhave. "Once Indians are comfortable with a new system they adapt very quickly. This is what happened when we moved from 'open outcry' to electronic trading earlier in the decade."

There is, however, one final problem associated with the transition. Under physical trading, stocks are settled on a weekly basis, with the Bombay Stock Exchange and the National Stock Exchange settling on different days. As such, retail investors can simply switch positions from one market to the next on a constant basis.

Under dematerialisation, stocks are settled on a rolling basis of T (time) plus five days. Some participants fear the mismatch will hit liquidity. Up to half of the 20,000 retail investors are "locals" or speculators who take positions with their own money. It is the locals who benefit most from exploiting the difference between the weekly settlement dates of the two exchanges.

"The move to rolling settlement will make it more difficult for short-term punting to take place," says one broker. "The market will have to rely more on long-term players."

INSURANCE • by Edward Luce

Liberalisation revived

New coalition is expected to back at least some foreign participation

If India's attitude to foreign investment can be summed up as "microchips: yes, potato chips: no", the domestic insurance sector probably ranks somewhere in the middle.

Last year, India's United Front government abruptly withdrew plans to liberalise the domestic insurance sector after its communist coalition partner exercised a veto.

Twelve months on, with a newly-formed BJP-led coalition government in power, prospects for insurance liberalisation are once again looking positive. Although the BJP has made use of the "microchips" slogan, local observers believe the new government will be receptive to at least an element of foreign participation.

"My prediction is that the government will take steps to open the insurance market when it presents its first budget in June," says Deepak Parekh, chairman of the recently-formed Infrastructure Development Finance Corporation. "They understand they must liberalise the insurance sector if they are going to mobilise domestic savings for infrastructure investment."

Foreign insurance companies – of which there are about 10 waiting patiently on the sidelines – are not quite as optimistic about prospects for full-scale liberalisation; one US company is already planning to close its representative office in Bombay. Nevertheless, executives appear relaxed about the longer-term outlook for the market.

"The probability is that the insurance market will initially be opened to just domestic competition," says the head of a leading western insurance company in India. "In the medium-term, a modicum of foreign participation is likely to be permitted. But this will be worth the wait."

Assuming liberalisation goes ahead, what will be the effect of competition on the existing monopoly players? And which segments of the market will the newcomers target?

"We are ready for competition when or if it comes," says G. Krishnamurthy, chairman of the Life Insurance Group, the larger of India's two nationalised monopolies. "It would take at least seven or eight years for new players to establish the networks to compete."

K.C. Mittal, chairman of the General Insurance Corporation, the non-life monopoly, agrees it will be an uphill struggle for the new entrants to establish themselves quickly. "We have 250,000 agents on the ground and LIC has more than 500,000, so it will be very difficult for new players to compete at the start," says Mr Mittal. "But the market is large enough to accommodate many more competitors."

Broadly speaking, the effect on LIC and GIC is expected to be two-fold.

On the one hand, the arrival of new and leaner competitors will almost certainly expose the inefficiencies of the two monopolies to greater scrutiny. Although both have extensive networks, with several thousand branches apiece, the monopolies are also blatantly overstaffed. In addition, much of their network is manually operated with heavily unionised workforces who are notoriously resistant to change.

"LIC says it has 500,000 agents, but how many of them sell more than a handful of policies a year? Probably not much more than 20,000, and many of those will be poached when the market is opened," says one foreign executive. In addition, there is arguably a great deal of pent-up demand in the Indian market.

Although the size of the Indian middle-class is often exaggerated, there is clearly ample room for growth. Indeed, the LIC, which has investment assets of $26bn, predicts that the life market alone will grow by 17 per cent a year for the next decade. The GIC, with investment assets of about $8bn, predicts growth of 20 per cent a year. Nevertheless, much of this growth will be taken by their new rivals.

"Indian life premiums are among the highest relative to returns in the world," says one Indian analyst. "The Indian middle classes are crying out for competitive insurance policies."

On the other side of the coin, liberalisation is (paradoxically) likely to prove a boon to the two state monopolies who complain – sotto voce – about the heavy-handed regulations to which they are currently subjected.

Under existing regulations, which are expected to be lightened once competition is allowed, the LIC must invest 75 per cent of its investment portfolio in low-yielding government paper and social projects. For the GIC the proportion is 45 per cent. This prevents them from chasing decent market returns.

In addition, regulations debar the two nationalised groups from paying market rates to attract managerial talent. Micro-surveillance by the state also militates against the adoption of imaginative policy initiatives and kills any appetite for taking calculated risks. "If ever there was a case of the nanny state it is in the Indian insurance sector," says one foreign executive.

GIC and LIC are also likely to prove stronger competitors than many had imagined. "We insure everything from newly-born chicks to satellites," says Mr Mittal. "We also know this market like the back of our hand."

Indian executives say that foreign companies have probably over-estimated the quick returns they can achieve in the Indian market. With just 7m employees in the private sector in companies with a workforce of more than 10 people, the middle class is smaller than many have estimated. The qualifying threshold for a basic credit card is just $100 a month in India.

Mr Mittal says the real growth in the market will come from policies for individuals in rural areas where premiums start at just $6 a year. "We already have the capacity in place to exploit the personal sector," says Mr Mittal. "The new players will find it very difficult to set up the distribution networks to compete with us."

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CURRENCIES & MONEY

Dollar struck by falling asset markets

MARKETS REPORT

By Simon Kuper

The dollar was hit yesterday by falling US asset markets and the yen by the usual gloom over Japan, leaving the D-Mark as currency of the day.

Wall Street, Treasury bonds and the dollar suffered after a newspaper report said the Federal Reserve was moving closer to raising US interest rates. The article claimed that the Fed had moved from a neutral stance to a tightening bias at its March meeting. Fed officials have made hawkish public comments in recent days. Karim Basta, fixed-income research specialist at Merrill Lynch in New York, noted that the Fed had been ready to raise rates in October and had been stopped only by the Asian crisis, which has failed to slow the US economy much since.

A fall in US asset markets tends to hurt the dollar at least initially. Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, said this was because the US needed foreign investors to buy its stocks and bonds in order to finance its current account deficit. When foreigners sold American assets, the dollar had to fall to lure them back.

However, some in the market said the talk of a Fed rate rise was little more than the prompt for yesterday's dollar sales. The long rise of the dollar and stock market has made both vulnerable to profit taking, and investors have been drawn to the D-Mark by the recent European economic recovery.

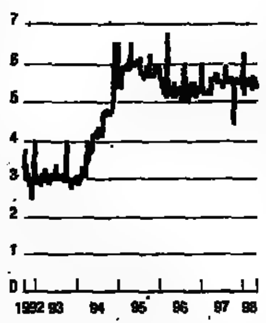
That helped explain why neither the dollar nor Wall Street recovered after Robert Rubin, US treasury secretary, said that the Asian crisis would "most likely result in lower inflation in this country and lower interest rates". The market does not expect a Fed rate rise in coming months, to judge by Eurodollar futures contracts.

In late US trading the dollar stood at DM1.7855 to the D-Mark, 1 pfg below Friday's London close. Mr Meggyesi noted that currency options positions implied that the market was expecting a further fall in the dollar against the D-Mark.

But the dollar managed to keep climbing against the yen. Last week investors were afraid to sell yen for fear that on Friday Japan would present a surprisingly large economic stimulus package and then sell dollars in the market. However, on Friday the stimulus was merely as expected, and Japan sold nothing.

Federal funds middle rate

Per cent



Source: Datastream/ICV

Yesterday, therefore, investors resumed betting against the yen. They were urged on by Kazuo Ueda, a member of the Bank of Japan's policy-setting committee, who said that another 5-10 per cent fall in the yen against the dollar would pose little economic risk. He also said he would like Japan's official discount rate to fall from its record low of 0.5 per cent if the economy worsened.

Mr Ueda was hardly voicing the Tokyo consensus – all other Japanese officials have been trying to talk up the yen. However, his comments may be the first public sign of a split between the Bank of Japan and the ministry of finance. The bank seems to disagree with the ministry's policy of intervening for the currency.

The dollar rose Y1.2 against the yen to Y132.2. The D-Mark rose Y0.91 against the Japanese currency to Y73.90.

■ King of the Japanese officials who talk up the yen is of course Mr Yen himself, Eisuke Sakakibara, senior official at the finance ministry. Yesterday he said bullish sentiment for the dollar was starting to change and the Japan was waiting to intervene "with the wind" to boost the yen.

But few traders took any notice. Many would be surprised if a day passed without Mr Sakakibara threatening intervention.

■ Greece yesterday denied market rumours that the drachma would be devalued ahead of this weekend's European Union summit in Brussels, allowing the country to enter monetary union in the first round.

Greece has met none of the Emu criteria, and the drachma was devalued 14 per cent only last month when the country entered the European exchange-rate mechanism. The currency is nearly 4 per cent above its ERM central rate.

■ POUND IN NEW YORK

Apr 27	—Latest—	— Prev. close —
£ spot	1.6725	1.6680
1 mth	1.6704	1.6658
3 mth	1.6655	1.6610
1 yr	1.6505	1.6455

■ OTHER CURRENCIES

Apr 27	£	$
Czech Rp	[illegible]	[illegible]
Hungary	350.749 - 351.043	210.130 - 210.180
Iran	5010.60 - 5007.60	3000.00 - 3000.00
Kuwait	0.5098 - 0.5102	0.3054 - 0.3055
Peru	4.7238 - 4.7317	2.8300 - 2.8330
Poland	[illegible]	[illegible]
Russia	[illegible]	[illegible]
UAE	[illegible]	[illegible]

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9525	0.13	0.49	0.61	0.11	0.04	0.04
9550	0.05	0.28	0.40	0.28	0.08	0.06
9575	0.02	0.12	0.22	0.50	0.17	0.15

The FT GUIDE TO WORLD CURRENCIES, published in Monday's newspaper and covering over 200 currencies, is now available by dialing the following number from the handset of your fax machine. 0891 437 001. Calls are charged at 50p/min at all times. For more information or assistance please phone 0171-873 4378. (Cityline help desk)

COMMODITIES & AGRICULTURE

ZINC FURTHER BLOW TO MINING IMAGE

Waste dam collapses near Seville

By Kenneth Gooding, Mining Correspondent

The mining industry has suffered another big blow to its image with the collapse of the waste dam at the $167m Los Frailes zinc mine near Seville in Spain – the fourth serious incident involving one of these dams in only four years.

The worst was in February 1994 when a disused dam full of sludge at Virginia in South Africa's Orange Free State collapsed and released a sea of mud that killed 17 people. Harmony Gold Mining, owner of the dam, and Frazer Alexander, the company responsible for its maintenance, and some of their employees were fined after an inquiry.

In 1995 part of a waste dam at the Omai gold mine in Guyana gave way, allowing water contaminated with cyanide to escape into a tributary of the Essequibo river. Cambior, the Canadian group that operates the mine, said its investigation showed only 400 fish were killed.

A year later a concrete plug gave way at a waste dam at the Marcopper mine in the central Philippines, leaking polluted water into the nearby Boac river on which several local communities relied on for a living. Placer Dome, the Canadian group, owned 40 per cent of the mine.

The mining industry has been sharing information on the design, construction and maintenance of waste dams for some years.

Gary Nash, secretary general of the International Council on Metals and the Environment, which has many of the big mining groups, including Boliden, among its members, said the companies were determined to be socially and environmentally responsible.

"They are making their best efforts to avoid things like this [the Los Frailes collapse]. They are trying to minimise the risks," he said.

Los Frailes started up early last year next to the depleted Aznalcollar mine, using the existing infrastructure. Anders Bülow, managing director of Boliden, the Canadian-Swedish company that owns it, is in Spain and a detailed study has started to discover what went wrong, the extent of the damage and the remediation that will be required.

Boliden said the dam failed along a 50 metre section and allowed about 4.5 cu m of acidic water into the nearby Rio Agrio. Waste materials containing sulphur, zinc, copper, iron and lead were also discharged.

It calculated that about 2,000 hectares of land were flooded and "limited property damage" had occurred along the Rio Agrio and the Rio Guadiamar.

The company said the dam was reviewed by independent consultants and government authorities in 1996 and last year, and had been regularly inspected since then. No signs of instability were detected prior to the failure.

Trelleborg, the Swedish group that spun off Boliden last year but still owns 42 per cent, said Boliden was not negligent.

Kjell Nilsson, Trelleborg managing director, said yesterday that Boliden saw no indication of subsidence or movement in spite of an advanced warning system. "It was the bottom that gave way, not the dam walls," he said.

Zinc prices unmoved by Spanish accident

MARKETS REPORT

By Kenneth Gooding and Peter John

News that Boliden had shut down its Los Frailes lead-zinc mine in Spain made little impression on the London Metal Exchange yesterday. Zinc for delivery in three months was down $1 a tonne at the close at $1,122, while lead was $2 a tonne lower at $576.

The mine was scheduled to produce 125,000 tonnes of zinc this year and 47,000 tonnes of lead, but in concentrate, an intermediate material.

Peter Windred, analyst at the CRU International consultancy, said: "I don't see this affecting production of refined metal at this stage." Nevertheless, it would help miners currently negotiationing with smelting companies about the charges for treating concentrates.

Norzink, one of Los Frailes' smelter customers, said the mine was expected to be out of action for at least two months.

"We will have to replace those supplies from other sources but do not see any production loss as a consequence," said Per Fatland, Norzink managing director.

The International Lead and Zinc Study group, in a review published just before the Los Frailes incident, estimated that the global zinc market would be in fine balance this year, with consumption rising by 0.6 per cent to 7.82m tonnes and production up by 5.2 per cent to 7.72m tonnes.

The ILZSG expects no significant change in lead output, with world production forecast to rise 0.2 per cent to 6.08m tonnes and consumption to fall 1 per cent to 5.98m tonnes.

On the London bullion market, palladium's price drifted downwards following the Russian parliament's approval of Sergei Kiriyenko as prime minister. This should pave the way for exports to begin from Russia, the biggest producer.

Dealers said the price would not drop sharply until there was evidence that physical palladium had arrived in the west. Palladium closed in London at $368 a troy ounce.

Oil traded within a tight range as the market looked for evidence of the promised oil production cuts.

Brent crude for June delivery failed to hold $14 a barrel, in spite of some slightly positive comments from Erwin Arrieta, Venezuela's energy minister. By London afternoon trading, the price had slipped 8 cents to $13.94.

Mr Arrieta said: "The market has stabilised at an undesirable level, which has allowed us to see that it very probably needs about 500,000 barrels a day less." He added that he had held a three-way telephone conversation with his Saudi Arabian and Mexican counterparts, and any further cuts could come before Opec's June meeting in Vienna.

Mr Arrieta's comments followed statements over the weekend by the UAE, Kuwait and Qatar, which said they would support further output cuts if prices failed to recover by June.

Borjomi bottler takes on the fakes

The 'Caucasus Vichy' is battling against widespread imitations, writes **Selina Williams**

Borjomi, the most highly mineralised commercially produced drinking water in the world, has graced Soviet tables for decades.

It comes from 1,000-year-old mineral springs in the foothills of the Caucasus mountains, is known as the Caucasus Vichy, and was used throughout the Soviet Union as a cure for hangovers, stomach disorders and skin complaints.

However, despite all its professed qualities, Borjomi's new directors have a battle on their hands. Once the favourite, and certainly the best known, mineral water in the Soviet Union, the company with the rights to its name has been in a fierce contest that has pitted the "real" mineral water against widespread and sophisticated fakes – a problem faced by many products in the former Soviet Union.

The battle against imitation Borjomi is "a matter of life and death" for the company, said Jacques Fleury, managing director of Georgian Glass and Mineral Water. Last year GGMW, a joint venture with a Georgian banking group and Dutch and French investors, won exclusive rights to the Borjomi name for 10 years.

Nonetheless, Mr Fleury pointed to the success of the company's advertising campaign which was launched last year. Sales have increased several hundred per cent since it began; before the campaign eight out of 10 bottles on the market were imitations.

Production this year is expected to reach some 50m bottles – a fifth of annual demand in the former Soviet republics, so the fakes are costing the company millions of dollars in sales.

GGMW has taken on the fakes in its advertising by focusing on the identification of the "real thing". Four deer, imprinted on the bottle's neck, a distinctive label with the factory's production number and an expiry date on the cap, distinguish the real Borjomi from hundreds of others.

Although some counterfeiters have replied by producing a new bottle similar to GGMW's, the company hopes to eliminate the competition by introducing a glass bottle later this year with a screw top that will be much harder for a run-of-the-mill factory to reproduce.

Mr Fleury estimates that thousands of counterfeiters in Russia, Georgia and even in Antwerp are producing about 100 different types of fake Borjomi.

Even in the town where GGMW produces its distinctive glass bottles, roadside vendors brazenly sell mineral water in plastic and glass bottles bearing the name Borjomi. Some of the water is taken from the source but bottled in unhygienic conditions. Other bottles contain carbonated tap water or just soda water.

However, the counterfeits have not completely ruined the business. During the early 1990s, when civil war raged in Georgia and the economy collapsed, Borjomi's production ground to a halt. But, ironically, the fake Borjomi sold in kiosks in Moscow and throughout Russia kept the brand name alive.

A recent Gallup poll showed that Borjomi was the best-known mineral water in Russia. Seven out of 10 people identified it and almost half the respondents said they preferred Borjomi to other Russian and foreign mineral waters.

Thanks to the Russian consumer's nostalgia for old and familiar products, Borjomi remains one of the most popular mineral waters in the former Soviet market, in spite of the fact that a half-litre bottle of Borjomi costs around the same as foreign competitors Evian and Vittel.

Borjomi was first commercially exploited in 1890 when the Russian Tsar's brother launched the town as a spa where the town's medicinal waters were put into wine bottles. One factory was built at the turn of the century and another in 1975.

Production increased during the Soviet era, peaking in the 1980s at 400m half-litre bottles a year – worth more than $300m at today's prices.

So far, GGMW's production is a drop in the bucket compared with the potential, once the company wrests control from the counterfeiters. However, the company predicts the advertising campaign will boost demand and it will be able to sell all the water at the source – some 400m bottles – by 1999.

GGMW is financed by a $10m loan from the European Bank for Reconstruction and Development, $2.8m from the International Finance Corporation and a further $11.5m from ING Barings, TBC Bank Georgia and various private investors.

The real thing: counterfeiters in Russia, Georgia and even Antwerp are producing about 100 different types of fake Borjomi

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1438.5-7.5	1463-4
Previous	1429-30	1465-65.5
High/low		1470/1451
AM Official	1424.5-25.5	1451.5-52.0
Kerb close		1469-70
Open int.	257,043	
Total daily turnover	54,554	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1298-1303	1325-30
Previous	1305-10	1335-35
High/low		1335/1317
AM Official	1288-88	1317-18
Kerb close		1325-30
Open int.	6,342	
Total daily turnover	1,758	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	568-7	578-9
Previous	563-64	574-75
High/low		578/571
AM Official	560-61	573.5-74.0
Kerb close		576-6.5
Open int.	35,860	
Total daily turnover	7,645	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5470-80	5565-70
Previous	5480-70	5550-60
High/low		5600/5560
AM Official	5395-400	5500-505
Kerb close		5570-75
Open int.	49,325	
Total daily turnover	14,436	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5620-30	5720-25
Previous	5605-15	5745-50
High/low		5740/5645
AM Official	5780-85	5695-5700
Kerb close		5705-10
Open int.	17,497	
Total daily turnover	6,644	

■ ZINC, special high grade ($ per tonne) [illegible]

■ COPPER, grade A ($ per tonne) [illegible]

■ LME AM Official £/$ rate [illegible]

■ HIGH GRADE COPPER (COMEX) [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	309.9	-3.0	311.5	309.2	31	227
Jun	311.2	-3.0	314.4	310.5	14,907	103.1k
Aug	313.5	-3.0	316.2	313.2	1,856	8,872
Oct	315.8	-3.0	318.0	318.0	64	5,013
Dec	317.7	-3.0	320.1	317.0	792	17,401
Feb	319.5	-3.0	320.5	320.5	236	6,830
Total					18,339	158,002

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	414.0	-1.8	420.0	411.0	14	17
Jul	408.0	-1.8	409.0	404.5	1,886	12,500
Oct	401.0	-1.8	401.0	400.0	30	577
Jan	397.0	-1.8	-	-	-	45
Total					2,040	15,021

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	303.00	-9.20	310.00	301.00	645	3,824
Sep	263.60	-11.30	270.00	263.00	100	1,253
Dec	253.60	-11.30	-	-	14	293
Total					746	5,370

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	614.5	-7.7	624.5	612.0	11,217	22,343
Jul	620.0	-7.3	629.0	617.0	6,039	26,433
Sep	620.3	-7.3	630.0	618.0	46	5,656
Dec	620.2	-7.4	630.0	619.0	593	11,530
Jan	619.5	-7.4	-	-	-	15
Mar	617.7	-7.4	626.0	626.0	24	2,520
Total					17,895	77,864

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	15.31	+0.22	15.45	14.95	52,867	127.6k
Jul	15.63	+0.24	15.91	15.47	24,114	84,058
Aug	16.20	+0.26	16.25	15.88	9,849	35,733
Sep	16.40	+0.20	16.50	16.14	3,824	26,190
Oct	16.58	+0.18	16.59	16.58	1,055	16,449
Nov	16.87	+0.08	16.87	16.58	1,305	10,611
Total					105,580	457,475

■ CRUDE OIL IPE ($/barrel) [illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.) [illegible]

■ GAS OIL IPE ($/tonne) [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) [illegible]

■ NATURAL GAS IPE [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.) [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne) [illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel) [illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel) [illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne) [illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel) [illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb) [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton) [illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne) [illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point) [illegible]

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons) [illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

FUTURES DATA
All futures data supplied by CMS.

Minor metals from Metal Bulletin. European free market, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 1,480-1,540 (1,520-1,570). Bismuth: min. 99.99%, tonne lots 3.80-4.00 (3.90-4.10). Cadmium: min. 99.95%, cents a pound, 28.00-32.00 (28.00-35.00). Cobalt: MB free market, min. 99.8%, 24.40-25.00; min. 99.3%, 20.50-21.00 (20.00-20.50). Mercury: min. 99.99%, $ per 76 lb flask, 135-145. Molybdenum: drummed molybdic oxide, 4.25-4.38 (4.30-4.40). Selenium: min 99.5%, 1.65-2.40 (1.70-2.40).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne) [illegible]

■ COCOA CSCE (10 tonnes; $/tonnes) [illegible]

■ COCOA (ICCO) (SDR's/tonne) [illegible]

■ COFFEE LIFFE ($/tonne) [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) [illegible]

■ COFFEE (ICO) (US cents/pound) [illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne) [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) [illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100) [illegible]

■ CRB Futures (Base: 1967 = 100) [illegible]

■ GSCI Spot (Base: 1970 = 100) [illegible]

■ LME WAREHOUSE STOCKS (tonnes) [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs) [illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs) [illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs) [illegible]

LONDON TRADED OPTIONS

■ ALUMINIUM (99.7%) LME; ■ COPPER (Grade A) LME; ■ COFFEE LIFFE; ■ COCOA LIFFE; ■ BRENT CRUDE IPE [illegible]

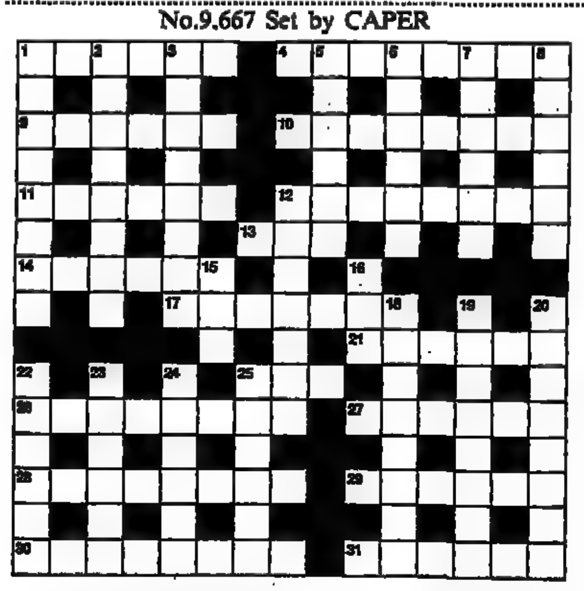
LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel); ■ OIL PRODUCTS NWE prompt delivery CIF (tonne); ■ NATURAL GAS (Pence/therm); ■ OTHER [illegible]

JOTTER PAD

CROSSWORD

No.9,667 Set by CAPER



ACROSS

1 King enters tarts' wings (6)
4 Head of French prison changes sweet (8)
9 Power that makes boiling tea-urn (6)
10 Tom's brass instrument (8)
11 Land on fire (6)
12 Terminate underworld crack (8)
13 Parade tune (3)
14 Creature good at point-to-point? Ditto (3-3)
17 Old robber's base and home (7)
21 If moving, need to indicate (6)
25 Nose around power lines (3)
26 Instrument that could give new recital (8)
27 Force cut back to be put in abeyance? (6)
28 Incessant bilge primarily coming out of firm (8)
29 Repair this sword when it's broken (6)
30 Estrange new 27 officer (8)
31 It's bad being cut off from Europe (6)

DOWN

1 Try following, and joining, fan dance (8)
2 Got badly tainted after article (8)
3 Piece of material carried by hiker, chiefly (8)
5 Star's opening bits of action likened to Allen's in "Robocop" (6)
6 It cannot be disputed (6)
7 Turnovers that have been cut (6)
8 Consider estimation of worth (6)
12 Pervert runs fish over (7)
15 Division of geological time is part of palaeontology (3)
16 Blue islands, alternately (3)
18 Belittle change agreed to (8)
19 One enters office and is very enthusiastic initially, having constructive attitude (8)
20 How to become partly perfect? (8)
22 Head to head union meetings? (6)
23 Rush one's profession (6)
24 Ed's dressed up with girl's underwear (6)
25 On piano Beatle doesn't start to flag (6)

Solution to Saturday's prize puzzle on Saturday May 9.
Solution to yesterday's prize puzzle on Monday May 11.

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h accident

БОРЖОМИ"

CROSSWORD

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

ABN AMRO Funds - Contd.

Fleming Group - Contd.

Mercury Asset Management - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equitable Life (International)

VLS Finance Ltd India

WP Stewart Global Growth Fund

World Invest SICAV

World Trust Fund

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

Aberdeen International Ltd

PO Box 454, Harbour Court, St Peter Port Guy

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MEDIA - Continued

PHARMACEUTICALS - Continued

RETAILERS, GENERAL - Continued

TRANSPORT - Continued

AIM - Continued

PROPERTY

WATER

SUPPORT SERVICES

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

AIM

AMERICANS

OIL EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

CANADIANS

OIL, INTEGRATED

SOUTH AFRICANS

TRADED INDEX SECURITIES

OTHER FINANCIAL

PROPERTY - Continued

SUPPORT SERVICES - Continued

LEISURE & HOTELS

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. R Dividend is paid in whole or part as a FID (Foreign Income Dividend). T Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xp ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

TELECOMMUNICATIONS

LIFE ASSURANCE

RETAILERS, GENERAL

TOBACCO

MEDIA

TRANSPORT

PHARMACEUTICALS

LONDON STOCK EXCHANGE

US interest rate worries unnerve UK equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Sentiment in London's equity market, already fragile, deteriorated further yesterday. The leaders came under renewed heavy fire, along with most European stocks, amid growing concerns about the next move in US interest rates.

The FTSE 100 posted its fourth straight decline, dipping below the 5,700 level in the process, before rallying to finish a difficult trading session a net 141.5, or 2.4 per cent down at 5,795.7. Yesterday's retreat extends the fall over four sessions to almost 160 points or 3.9 per cent.

Since hitting its all-time intra-day high of 6,150.5 on April 14, the index has retraced 428.1, or 7 per cent.

"There is an increasing worry that the Fed might lift rates next month. That, and the long-term fears that Wall Street, and therefore many of the European stock markets, are heavily overbought are behind the market's nerves," said a salesman at one of the City's leading securities houses.

"We've come back more than 400 points from the high and there are many who feel a further fall of 200 points wouldn't be unhealthy," he added.

But he insisted there was no reason for investors to panic yet. "There is not a great deal of stock coming out; possibly the leaders are seeing some selling pressure, but that is certainly not the case across the rest of the market."

Marketmakers agreed that the London market's problems came more from overseas than from home. The general view around a number of the trading desks was that the market could easily cope with the recent bout of weakness, although that could well change if the selling pressure builds up over the rest of the week.

On the technical front, the Footsie's dip below 5,800 was seen as a substantial bearish signal with the next stop put around the 5,600 level.

Stock market strategists viewed the market's performance with increasing unease. Richard Jeffrey, group economist at Charterhouse Tilney said there was now real anxiety about economic prospects.

"In the US the yield on the long bond has moved back above 6 per cent and London may now be adapting to the fact that prospective profits growth does not support the high ratings the market is selling on," he said.

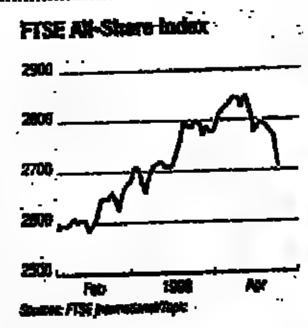
The market's second-liners and the small caps managed to resist most of the downside pressures throughout the early part of the session, but succumbed later in the day as Wall Street confirmed worst expectations and came under sustained pressure.

The FTSE 250, which hit new closing and intra-day records only last Thursday, finished the day a net 36.3 off at 5,564.0 while the FTSE SmallCap, which edged higher in the first hour, ran back sharply in the afternoon, eventually closing 14.9 off on balance at 2,626.6.

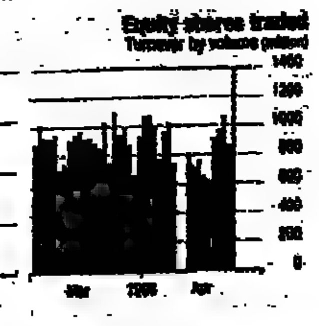
London's problems began late on Friday when the Dow Jones Industrial Average closed the session down 78 points, followed early yesterday by sweeping losses across Asian markets.

Turnover in equities jumped to 1.41bn shares, the highest daily total for some months. A technical trade in Aegis, the media group, accounted for over 40 per cent of that figure.

FTSE All-Share Index



Equity shares traded



Source: FTSE International/Topic

Indices and ratios

FTSE 100	5722.4	-141.5	FT 30	3713.8	-54.8
FTSE 250	5564.0	-36.3	FTSE Non-Fins p/e	18.23	22.43
FTSE 350	2774.1	-58.8	FTSE 100 Fut Jun	5785.0	-117.0
FTSE All-Share	2709.89	-54.78	10 yr Gilt yield	5.87	5.86
FTSE All-Share yield	2.87	2.80	Long gilt/equity yld ratio	2.09	2.09

Best performing sectors

1. Chemicals +0.3
2. Paper, Pckg & Printing +0.1
3. Oil Exploration & Prod -0.3
4. Distributors -0.4
5. Diversified Inds -0.5

Worst performing sectors

1. Insurance -3.9
2. Banks: Retail -3.9
3. Life Assurance -3.8
4. Extractive Inds -3.5
5. Alcoholic Beverages -3.5

Broker boost for Glaxo

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Glaxo Wellcome, one of the big liquid stocks traditionally most vulnerable to global market upsets, remained resilient as Goldman Sachs lent its support.

The US broker set a £19-a-share price target on the stock – a 20 per cent premium to yesterday's level – and issued a 70-page report explaining why it favoured Glaxo as its global play among pharmaceuticals.

Analyst John Murphy said: "Glaxo Wellcome has one of the highest-quality portfolios in the industry. We expect it to achieve compound annual sales growth of 11 per cent over the next five years compared with the pan-European sector weighted average of 8.5 per cent."

The Goldman team has also reiterated its positive recommendation and, while Glaxo is not included on the broker's global priority list, it is part of the European recommended selection.

The shares topped the list of Footsie outperformers in early trading and remained resilient as the rest of the Footsie stocks headed south. By the close, they were down 13 to £15.47, a fall of only 1 per cent against the market's 3 per cent slide.

One of the biggest rises in the market was achieved by electronic equipment maker Eurotherm, which rose 96½ to 445p following news of the agreed bid from Siebe, which dropped 73 to £13.07. The fall in Siebe's shares was attributed to concerns over the large number of acquisitions it was involved in, combined with suggestions that at two times sales and 19½ times earnings Eurotherm was not being acquired cheaply.

Elsewhere in the engineering sector, FTSE 100 stocks suffered along with the rest of the blue-chip index, although some in the FTSE 250 saw some investor interest.

Rolls-Royce was off 18¼ at 273p, while in the 250, Halma gained 6 to 128p after a bullish trading statement that said sterling strength was factored into current forecasts. BBA moved against the market trend as it rose 3¼ to 498¼p.

EMI up again

Strong bid talk returned yesterday to music company EMI Group, sending the shares sharply ahead on an otherwise poor day in the market. The shares improved 9 or nearly 3 per cent to 498¼p, making it one of the day's best performers in the FTSE 100 after trade of 5.4m.

Confirmation that Edgar Bronfman, president of Canadian group Seagram, would be in London this week led to the renewed talk of a bid for the UK group. However, observers of EMI also pointed out that both its chairman and finance director are currently away in the US, but this failed to dispel the rumours.

There was also talk that EMI was back in the running to buy Boosey & Hawkes, the classical music publisher and musical instruments manufacturer. EMI dropped out of the bidding for the group in January.

Lonrho beat the market malaise and rose 11 to 439p, helped by bid speculation.

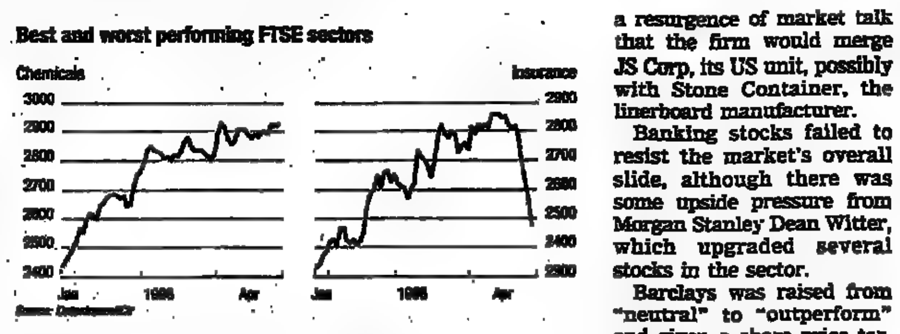
Weekend press reports said Morgan Stanley had built a 10 per cent stake in Lonrho while several groups were said to be interested in the company. The demerger of Lonrho's African trading businesses has also prompted speculation that a bid could be forthcoming for either side.

Reed International dropped 24 to 563½p. Analysts said the $1.65bn being offered to Times Mirror for its legal publishing assets represented 7.5 times historic revenues and was a high price, albeit for a strategically beneficial deal.

Aegis, the media services company, was the UK's most heavily traded stock after it sold 348.2m shares, about 38.4 per cent of the share capital, through a bookbuilding exercise. Most of the shares represented the 32 per cent stake held by Warburg Pincus, the US investment firm. The underlying shares rose 5 to 87p.

WPP, the advertising and marketing concern, lost early gains despite reporting first-quarter revenues up 13 per cent in constant currencies, but up 8 per cent to £418.7m after factoring in the strength of sterling. The parent of the Ogilvy & Mather and J. Walter Thompson advertising agencies, also said it was looking for acquisitions in Asia Pacific and Latin America. The shares ended 6¼ off at 374p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

Smurfit at record

Jefferson Smurfit, the Irish paper and packaging group, gained 5¼ to 182.15p to reach a record high amid continued expectation of a US merger. Smurfit shares hit their previous record high last Tuesday on the back of a resurgence of market talk that the firm would merge JS Corp, its US unit, possibly with Stone Container, the linerboard manufacturer.

Banking stocks failed to resist the market's overall slide, although there was some upside pressure from Morgan Stanley Dean Witter, which upgraded several stocks in the sector.

Barclays was raised from "neutral" to "outperform" and given a share price target of £20.26. Alliance & Leicester was also raised to "outperform" with a target price of 976p. The investment bank also upgraded Royal Bank of Scotland, Woolwich Northern Rock and Abbey National from "underperform" to "neutral". Barclays fell 34 to £17.30, RBoS 45 to 865p, Northern Rock 17 to 592p and Abbey 42 to £11.13.

ICI was one of the few stocks in the Footsie to remain in the blue. Credit Lyonnais Securities Europe reiterated its "buy" stance. The shares ended the day 3 higher at £10.88.

Retailer Debenhams was the best-performing stock in the FTSE 250 after the group posted better-than-expected first-half profits.

The shares appreciated 26¼ or 7.6 per cent to 374p, with the market particularly pleased with the chairman's bullish comments.

The firm advance in Debenhams, which was demerged from Burton Group in January, helped boost Arcadia, another group formed out of the same demerger. Shares in the group, which reports interim figures on Thursday, bounced 6½ to 424p. The shares fell sharply on Friday on reports of difficult trading conditions at several of its businesses.

Great Universal Stores, which yesterday declared its bid for Argos unconditional in all respects, firmed 4 to 880p.

FT 30 INDEX

	Apr 27	Apr 24	Apr 23	Apr 22	Apr 21	Yr ago	*High	*Low
FT 30	3713.8	3768.4	3781.4	3784.8	3784.6	2869.7	3872.4	3703.3
Ord. div. yield	2.95	2.91	2.90	2.89	2.89	3.86	4.22	[illegible]
P/E ratio net	24.02	24.38	24.48	24.52	24.54	17.20	25.88	15.80
P/E ratio nil	23.81	24.18	24.25	24.30	24.32	17.02	24.84	15.71

FT 30 since compilation: high 3857.0 [illegible]; low 49.4 [illegible]. Base Date: 1/7/35

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3768.4	3758.8	3742.2	3745.2	3740.1	3745.1	3737.8	3722.4	3710.4	3768.8	3703.3

STOCK MARKET TRADING DATA

	Apr 27	Apr 24	Apr 23	Apr 22	Apr 21	Yr ago
SEAQ bargains	64,215	53,106	61,796	62,325	62,144	50,755
Equity turnover (£m)†	-	3300.0	3310.4	3036.0	2808.5	[illegible]
Equity bargains†	-	61,002	49,166	60,932	50,001	39,082
Shares traded (m)†	-	829.8	845.3	788.9	705.2	644.7
Total market bargains‡	-	[illegible]	62,534	61,268	61,590	na
Total turnover (£m)‡	-	4477.4	4871.8	4467.1	3893.9	na
Total shrs traded (m)‡	*1410.0	1108.2	1137.5	1071.1	934.4	na
Tradepoint turnover (£m)	22.1	24.1	36.8	18.4	24.0	0.3
Tradepoint shrs traded	8,640	8,400	7,886	[illegible]	8,436	[illegible]

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	415	Total Highs	82	Total contracts	24,980
Total Falls	1,366	Total Lows	54	Calls	14,484
Same	1,336			Puts	10,486

Apr 27 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point(Apr24)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5890.0	5890.0	-8.0	5933.0	5820.0	20691	155805
Sep		5985.0	-8.0			0	9336
Dec	6015.0	6055.0	-13.0	6015.0	6015.0	14	6

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point(Apr24)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5670.0	5670.0	+25.0	5670.0	5670.0	36	6513

FTSE 100 INDEX OPTION (Apr 24) (LIFFE) (*5843) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (Apr 24) (LIFFE) £10 per full index pt

[illegible]

Calls 3,517 Puts 2,579 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											
§50	F.P.	1.25	52½	52½	Microcap Growth Tst	52½		-	-	-	-
100	F.P.	30.0	97½	97½	Murray VCT 3	97½		-	-	-	-
-	F.P.	44.8	250	153	Oldaco's	226	-7	12.8	6.2	1.4	14.8
-	F.P.	118.9	319½	278½	Oxford Glyco	314½	-1½	-	-	-	-
*	F.P.	18.8	92½	90	Quester VCT 2	90		[illegible]	-	3.1	-
-	F.P.	-	34½	34½	Transport Dev B	34½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Apr 24	% chg on day	Apr 23	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1288.42	-1.7	1301.57	1476.29	1.83	-	1810.93	891.23
Regional Indices								
Africa (14)	1438.84	+2.8	1400.35	1798.41	3.76	31.81	1994.25	[illegible]
Australasia (7)	1593.37	-0.4	1600.53	1656.64	2.11	21.82	1858.52	933.63
North America (11)	1268.44	-3.7	1317.41	1335.84	0.86	[illegible]	1574.15	894.86

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Apr 27	Day's chge%	Apr 24	Apr 23	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5722.4	-2.4	5863.9	5868.1	4389.7	2.88	2.42	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	5564.0	-0.6	5600.3	5604.4	4496.2	2.92	2.45	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	5620.8	-0.6	5649.7	5651.6	4531.2	3.00	2.52	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2774.1	-2.1	2832.9	2846.6	2180.4	2.87	2.43	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]											

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday

	Vol 000's	Closing price	Day's change
[illegible]			

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

AMERICAS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY APRIL 24 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY APRIL 23 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	217.28	-1.2	193.30	179.95	202.78	221.98	-0.9	3.50	219.98	195.90	180.78	205.69	223.96	243.87	190.28	223.99
Austria (23)	235.35	-0.2	209.39	194.93	219.66	219.52	-0.4	1.49	235.78	209.98	193.78	220.48	220.32	235.80	179.21	183.61
Belgium (29)	328.97	-0.5	292.69	272.47	307.05	300.72	-0.6	2.40	330.47	294.31	271.60	309.02	302.59	335.44	234.33	240.39
Brazil (30)	258.04	1.0	229.58	213.73	240.85	543.24	1.1	1.91	255.43	227.49	209.93	238.86	537.08	322.44	184.94	242.99
Canada (120)	244.34	-1.7	217.39	202.38	228.05	254.09	-1.5	1.58	248.49	221.31	204.23	232.37	257.85	248.78	184.53	186.43
Denmark (34)	502.69	-1.3	447.24	416.36	469.19	468.27	-1.5	1.29	509.38	453.64	418.64	476.33	475.25	521.81	355.86	362.03
Finland (26)	431.58	0.8	383.98	357.46	402.82	493.46	0.6	1.83	428.13	381.29	351.87	400.35	490.31	439.33	249.14	254.32
France (79)	298.25	-0.8	265.38	247.03	278.38	281.63	-0.8	2.09	300.12	267.28	246.66	280.85	284.02	305.13	210.04	211.12
Germany (58)	277.18	-1.9	246.61	229.58	258.71	258.71	-2.1	1.27	282.47	251.56	232.15	264.14	264.14	290.93	196.36	199.66
Hong Kong, China (58)	330.67	-0.3	294.19	273.88	308.63	328.99	-0.3	4.80	331.55	295.28	272.49	310.04	329.88	580.03	262.93	458.76
Indonesia (27)	56.82	-0.4	50.55	47.06	53.03	276.22	-1.1	2.46	57.06	50.81	46.89	53.38	279.15	254.90	27.87	231.28
Ireland (16)	547.73	-0.2	487.32	453.66	511.23	549.20	-0.6	1.77	549.13	489.05	451.31	513.50	552.38	560.44	326.78	331.30
Italy (54)	160.36	-3.6	142.67	132.82	149.67	212.51	-3.8	1.22	166.40	148.19	136.78	155.60	221.01	177.15	85.70	86.76
Japan (480)	98.52	0.9	87.65	81.60	91.95	81.60	1.7	0.97	97.62	86.94	80.23	91.29	80.23	141.12	88.52	115.44
Malaysia (107)	185.67	1.6	165.19	153.78	173.29	269.14	1.1	2.56	182.66	162.67	150.12	170.81	266.28	545.67	113.58	539.43
Mexico (29)	1693.96	-1.3	1507.11	1403.03	1581.05	15685.29	-1.4	1.47	1716.71	1528.88	1410.91	1605.32	15900.65	1901.98	1335.40	1365.06
Netherlands (19)	500.99	-0.2	445.73	414.95	467.60	461.82	-0.4	2.00	501.86	446.95	412.47	469.30	463.75	511.33	344.68	351.96
New Zealand (14)	76.03	0.2	67.64	62.97	70.96	72.07	0.3	4.53	75.85	67.55	62.34	70.93	71.82	98.47	71.49	85.03
Norway (38)	350.51	0.5	311.85	290.31	327.15	354.94	0.3	1.76	348.86	310.69	286.72	326.23	354.02	374.64	281.62	298.78
Philippines (22)	96.63	-0.7	85.97	80.04	90.19	185.40	-0.7	1.11	97.28	86.63	79.95	90.97	186.64	175.93	57.54	175.93
Singapore (42)	207.48	-0.8	184.59	171.85	193.65	152.07	-0.8	1.97	209.26	186.37	171.99	195.68	153.23	401.75	144.01	372.14
South Africa (43)	337.75	-0.1	300.49	279.74	315.24	373.24	-0.2	2.38	338.15	301.16	277.92	316.22	374.10	385.52	227.66	358.60
Spain (31)	374.11	-1.1	332.84	309.86	349.17	432.24	-1.3	1.77	378.41	337.00	311.00	353.86	437.98	386.69	223.31	225.58
Sweden (48)	585.15	-0.5	520.61	484.66	546.15	667.25	-0.7	1.75	588.33	523.96	483.53	550.15	672.17	610.82	405.00	421.12
Switzerland (30)	385.07	-0.8	342.60	318.94	359.41	356.83	-0.5	1.09	388.35	345.86	319.17	363.15	358.69	406.53	263.17	267.32
Thailand (38)	26.80	0.2	23.84	22.20	25.01	40.41	-0.9	7.43	26.74	23.81	21.98	25.01	40.79	80.99	13.10	80.99
United Kingdom (209)	384.25	-0.4	341.87	318.26	358.64	341.87	-0.5	2.87	385.74	343.53	317.03	360.71	343.53	401.84	282.05	283.86
USA (637)	452.96	-1.0	403.00	375.17	422.77	452.96	-1.0	1.41	457.47	407.42	375.98	427.79	457.47	462.16	309.52	312.33
Americas (816)	410.71	-1.0	365.41	340.18	383.34	346.95	-1.0	1.42	414.86	369.47	340.96	387.94	350.41	418.95	283.41	285.94
Europe (694)	349.65	-0.9	311.06	289.60	326.35	330.11	-1.0	2.04	352.78	314.18	289.94	329.88	333.46	363.50	243.43	245.80
Nordic (149)	517.08	-0.3	460.04	428.27	482.61	520.05	-0.5	1.70	518.82	462.05	426.40	485.15	522.78	533.60	355.77	366.21
Pacific Basin (870)	108.79	0.6	96.79	90.11	101.54	90.88	1.2	1.63	108.15	96.32	88.88	101.13	89.80	158.99	95.32	134.29
Euro-Pacific (1564)	209.19	-0.4	186.12	173.27	195.25	180.90	-0.3	1.82	210.12	187.13	172.69	196.49	181.51	216.04	172.03	180.78
North America (757)	439.70	-1.0	391.20	364.18	410.39	439.61	-1.0	1.42	444.21	395.61	365.09	415.39	444.06	448.61	301.87	304.62
Europe Ex. UK (485)	321.54	-1.1	286.07	266.31	300.11	314.42	-1.3	1.61	325.28	289.69	267.34	304.17	318.48	333.98	216.94	219.99
Pacific Ex. Japan (390)	201.51	-0.5	179.28	166.90	188.08	201.58	-0.4	3.64	202.50	180.34	166.43	189.36	202.42	318.98	161.31	293.29
World Ex. US (1786)	213.55	-0.5	189.99	176.87	199.32	188.71	-0.4	1.90	214.80	191.12	176.37	200.86	189.43	220.18	175.30	184.14
World Ex. UK (2214)	281.83	-0.8	250.75	233.43	263.05	257.27	-0.7	1.50	284.07	252.99	233.47	265.64	259.13	287.02	217.49	219.26
World Ex. Japan (1943)	386.10	-0.9	343.51	319.79	360.37	379.15	-1.0	1.73	389.75	347.11	320.33	364.48	382.86	394.39	278.23	280.67
The World Index (2423)	290.52	-0.8	258.47	240.62	271.15	284.95	-0.7	1.65	292.70	260.67	240.56	273.71	286.80	298.57	222.91	224.75

Emerging markets: IFC Investable indices

4 pm close April 27

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 24	Apr 23	Apr 22	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9064.62	9143.33	9176.72	9184.94 (21/4)	7580.42 (9/1)	9184.94 (21/4/98)	41.22 (8/7/32)
Home Bonds	104.79	104.95	105.04	105.48 (15/1)	104.79 (24/4)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3658.02	3691.08	3661.57	3698.02 (15/4)	3194.35 (9/1)	3698.02 (15/4/98)	13.23 (8/7/32)
Utilities	280.80	281.92	285.22	291.18 (2/4)	262.86 (9/1)	291.18 (2/4/98)	10.53 (8/7/32)

DJ Ind. Day's high 9206.38 (9259.88) Low 8993.85 (9081.98) (Theoretical) Day's high 9160.02 (9208.10) Low 9020.03 (9114.10) (Actual)

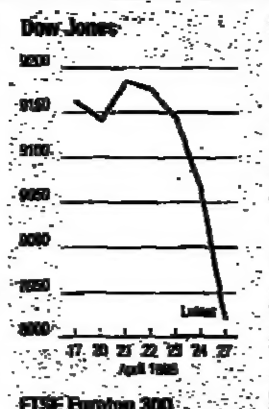
Standard and Poors	Apr 24	Apr 23	Apr 22	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1107.90	1119.58	1130.54	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1299.98	1300.83	1311.46	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial‡	135.29	137.54	139.72	140.63 (14/4)	110.85 (9/1)	140.63 (14/4/98)	7.13 (4/8/74)
Others							
NYSE Comp.	574.47	580.55	585.82	585.82 (22/4)	487.47 (9/1)	585.82 (22/4/98)	4.64 (25/4/42)
Amex Comp	741.86	748.06	753.87	753.87 (22/4)	646.41 (12/1)	753.87 (22/4/98)	324.20 (10/7/98)
NASDAQ Comp	1868.98	1881.39	1917.61	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	480.32	484.55	491.14	491.41 (21/4)	410.88 (12/1)	491.41 (21/4/98)	123.36 (7/12/82)

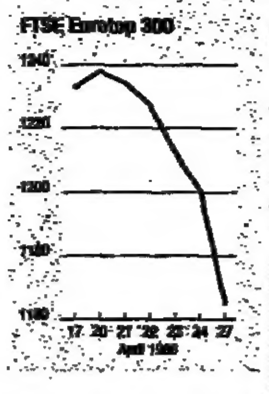
US DATA

MARKET ACTIVITY

NYSE TRADING ACTIVITY

NASDAQ TRADING ACTIVITY





JAPAN

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WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

AMEX PRICES

EASDAQ

STOCK MARKETS

Hawkish rate warning depresses markets

WORLD OVERVIEW

A growing conviction that the US is heading for higher interest rates sent Wall Street sharply lower early on and kept European equity and bond markets under pressure, *writes Michael Morgan.*

Some analysts warn that a rise is on the cards, perhaps after the next meeting of the Federal Open Markets Committee on May 19.

The caution follows increasingly hawkish comments from officials like Federal Reserve board member Roger Ferguson. He warned last week that rates might rise and suggested a more hard-line stance could be in prospect from the Fed.

Not everybody agrees. Ian Harwood at Dresdner Kleinwort Benson insists anxiety that the Fed, Bundesbank or Bank of England will shortly raise rates is unjustified.

In Tokyo, he says, rates will remain at their record low, notwithstanding the unprecedented scale of Japan's fiscal package.

European markets were not reassured. Italy plunged 6.4 per cent in a continuation of the profit-taking by domestic retail investors which began on Thursday.

Nicolo Braendli at Akros Sim in Milan said that an unprecedented number of shares ran into temporary trading halts as they tumbled by the maximum permitted 10 per cent. He believed that the market could have further to fall, after running up more than 40 per cent since the start of the year.

But he also pointed to domestic and foreign institutional investors sitting quietly in the wings, biding their time before returning to snap up cheaper stock.

Amsterdam was another big loser, falling 5 per cent under pressure from options-related selling in an otherwise empty market.

In emerging Europe, Athens added to Friday's 5.5 per cent fall, tumbling another 7 per cent, as the market remained preoccupied with reports of a delay in the planned sell-off of Commercial Bank. Such a delay would raise doubts about the government's commitment to public sector reform.

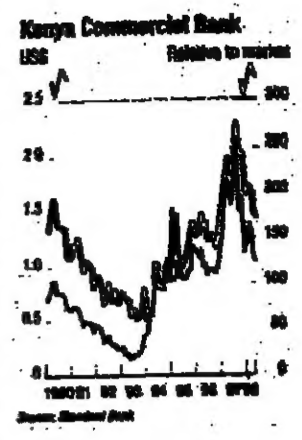
Salomon Smith Barney recommended that investors should be turning their attention to Russia and Turkey, which have both fallen sharply so far this year, together with Poland.

Prospects for reform of the Russian market, seen by Salomon as one of the cheapest in the world, had been boosted by parliamentary approval of President Boris Yeltsin's candidate for prime minister.

Turkey offered strong growth in 1998, while Poland was seen as undervalued, in spite of its 19 per cent appreciation in the first quarter.

EMERGING MARKET FOCUS

Tanzania closes door to investors



The euphoria that greeted the opening of the Dar es Salaam stock market in Tanzania appears to be fading – just two weeks after the start of trading.

The market trades for only one hour every Wednesday in Tanzania Oxygen, the privatised gases company that is the first – and so far only – listing on the bourse.

While the move marks another step in Tanzania's shift away from its socialist past, international investors are disappointed and frustrated at the country's refusal to embrace foreign investment.

Analysts point out that the placing of Tanzania Oxygen was undersubscribed and left 13 per cent of the stock with underwriters.

"This is a very small market where you need foreign investors to help boost demand and liquidity. In a country that is still poor, it is unlikely that the locals can absorb much stock," said one analyst.

It was through the impending listing of Tanzania Breweries that international investors were hoping to enter the market.

South Africa Breweries already holds a stake of about 50.5 per cent in the company, which is valued at around $130m. The government, which holds 36.7 per cent of the shares, was planning to list 25 per cent of its holding.

But foreign investment on the DSE remains banned and there is little sign of a change of heart on this issue in the near future.

Fratan Mboya, chief executive of the Capital Markets and Securities Authority, said: "The government feels the initial issues should go to Tanzanians first. Undoubtedly foreign investors should be in this market, but we are working on a policy paper to try and persuade the government to change the situation.

"With Kenya allowing foreign investment and Uganda likely to do so when it opens its market, we will have to change. Otherwise we will be left behind," he added.

The consequences of government policy are already being felt. The Tanzania Breweries issue has been scaled back to 10 per cent for fear of stock indigestion on the new market.

One analyst said: "There are many overseas investors that want to get into Tanzania Breweries, yet all the government is worried about is not to be seen selling the family silver. This won't help the other planned issues and, in fact, international investors may choose to forget this market and go to other emerging markets that offer greater returns."

Analysts point to similar worries in Kenya, which has allowed foreign investment on the Nairobi Stock Exchange since 1995.

Officials dealing with the sale of a 25 per cent stake in Kenya Commercial Bank were said to have only agreed to place around 20 per cent of the stock with international investors after worries that a sizeable amount would be unsold.

Analysts cited political fears for the reluctance to invite international investors.

Joel Kibazo

Worries over Fed move send Dow tumbling

AMERICAS

US shares took a drubbing in early trading as worries set in that the Federal Reserve might be poised to increase interest rates in order to damp down economic growth, *writes Richard Tomkins in New York.*

At midday, the Dow Jones Industrial Average was back below the 9,000 mark, having tumbled 146.48 or 1.6 per cent to 8,918.14. Other indices were hit harder. The Standard & Poor's 500 index was off 22.55 or 2 per cent at 1,085.35, and the Nasdaq composite index retreated 51.73 or 2.8 per cent to 1,817.23.

Investor sentiment was jolted by reports of Fed concerns that the US economy might not be slowing as much as expected, raising the possibility that policy makers would consider pushing up short-term interest rates to keep inflation under control – perhaps as early as May 19.

The last time the Fed raised interest rates was on March 25 last year, when it pushed them up by a quarter of a percentage point. That prompted a fall of nearly 10 per cent in the Dow, but within a few weeks prices had bounced back to new highs.

Yesterday, stock prices followed bond prices down as the yield on the long bond rose above 6 per cent, increasing the perception that bonds could be an attractive alternative to stocks for some investors.

Among blue-chip stocks, some of the hardest hit were financials, which customarily respond negatively to increases in interest rates. BankAmerica was off $4⅛ at $80⅞. Chase Manhattan was off $5 at $129¼, Citicorp was off $6¾ at $148¼ and NationsBank was off $3⅞ at $72⅞.

After Mellon Bank's board unanimously rejected Bank of New York's unsolicited offer, Mellon Bank fell by $1⅛ to $72¾ and Bank of New York came off $2 at $57¾.

Airline stocks, highly vulnerable to the economic cycle, did badly. UAL was down $2¼ at $87¾, AMR was down $3¼ at $148⅛, and Delta Air Lines was down $3¾ at $113¾.

Technology stocks saw sharp falls, too. Microsoft was down $2½ at $89¾, while Amazon.com, due to report another quarter of heavy losses, tumbled $4¾ to $80.

TORONTO moved steeply lower as shares shied at the sight of rising bond yields and the early shakeout on Wall Street. Banks stayed under a cloud. The 300 composite index was off 165.24 at 7,538 at noon.

Worries about rising interest rates sent bank shares lower across the board. Royal Bank of Canada shed C$1.90 to C$83.40 and Bank of Montreal C$1.45 to C$76.95. Canadian Imperial Bank of Commerce shed C$1.10 at C$48.50.

Golds were also weak, with Barrick slipping 65 cents to C$32.35 and Placer Dome giving up 60 cents at C$20.65. Among industrials Alcan Aluminium came off 45 cents at C$46.30 and Northern Telecom also moved sharply lower, losing C$1.50 at C$86.40.

Seagram was a rare firm feature, adding 50 cents at C$56.45 after an old rumour about a possible takeover bid for EMI, the UK music and leisure leader, resurfaced.

Concern hits São Paulo

SAO PAULO fell steeply from the opening bell with sentiment pinned to the floor by worries about rising US interest rates.

Volume was thin and although the selling was described as relatively light it was enough to cut a swathe through leading stocks.

Telmex fell 3.5 per cent to R$134.50 and Petrobrás came off 2.4 per cent to R$282. At midsession, the Bovespa index was 370 or 3.2 per cent lower at 11,359.

MEXICO CITY also lost ground with the IPC index off 104.75 or 2.1 per cent at 4,981.48. Volume was low with barely 5m shares traded by mid-morning.

CARACAS continued to make heavy weather of weak international oil prices. Having fallen for four successive sessions up to Friday, the IBC index was 270.05 or 4.1 per cent lower at 6,369.62 at midsession yesterday.

Johannesburg was closed for a public holiday.

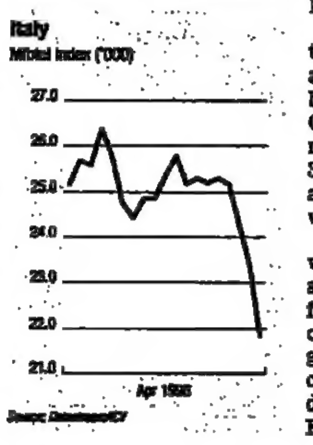
Milan plunges 6.4% on selling

EUROPE

Shares in MILAN plunged 6.4 per cent as Italian retail investors rushed to sell. The Mibtel index closed down 1,498 at 21,841, its biggest one-day fall since 1994.

The slide prompted comments by government officials and banking executives seeking to reassure investors. Carlo Azeglio Ciampi, treasury minister, said the market was fundamentally in good health. He said investors were not taking fundamentals into account. Alessandro Profumo, managing director of Credito Italiano, said the rush of selling was unjustified.

Alessandro Baj Badino, senior analyst at Actinvest, the equity research group, said Italian stocks could fall further. However, he said an underweight recommendation would be upgraded if the market fell another 5 per cent.



Blue chips were among the big losers. Telecom Italia, the most active issue of the day, fell L801 to L12,811, Eni declined L538 to L10,875, Olivetti lost L219 to L2,004, and Fiat declined L706 to L6,760.

Financials were also weaker with insurer Ras down L2,261 to L27,132 and Ina falling L462 to L5,160. Credito Italiano, the bank that announced a merger earlier this month, retreated L595 to L8,689.

FRANKFURT came within a whisker of testing the 5,000 barrier on the Xetra Dax, which ended electronic trading with a fall of 141.71 or 2.8 per cent at 5,002.71, its lowest level since the third week of March.

Having successfully seeded last week, interest rate worries took root firmly ahead of Thursday's meeting of the Bundesbank council.

Banks were subdued. Dresdner Bank fell almost 6 per cent, tumbling DM6.25 to DM94.30. Deutsche Bank lost DM4.20 to DM139.80.

Software leader SAP gave up DM35.90 at DM844.10. Volkswagen retreated DM22.20 to DM1,345.00 amid media reports that the group was set to outbid BMW in the bidding auction for Rolls-Royce Motor Cars.

PARIS kept in step with the downturn across Europe as long bond yields broke back above 5 per cent. The CAC 40 index moved determinedly down through the 3,700 barrier to close off 97.51 at 3,695.83, although volume was below average.

SGS-Thomson was the worst-performing stock among CAC components, falling FFr46.90 or 8.7 per cent to FFr494.10. LVMH gave up FFr69.00 or 5.3 per cent at FFr1,222. Générale des Eaux lost FFr54.00 to FFr1,048.

Three stocks managed to stay positive, two of them retailers Carrefour and Promodès, which improved FFr13.00 to FFr3,323 and FFr13.00 to FFr2,950 respectively. Michelin added 70 centimes to FFr371.70.

AMSTERDAM fell 58.75 or 5 per cent to 1,107.99 on the AEX index as weakness on Wall Street pulled internationals lower and the cash market met with heavy downside pressure from the options market.

Financials led the way down. ING tumbled Fl 10.00 or 7.6 per cent to Fl 122.10, with the group declining to comment on a UK press report that it was planning to link with Credit Suisse, the Swiss bank.

ABN Amro fell Fl 3.40 or 6.5 per cent to Fl 48.90 in 11.2m shares traded. Aegon came off Fl 15.80 or 5.7 per cent to 261.10. Among internationals, Unilever shed Fl 7.80 or 5.3 per cent to Fl 40.40 and Philips Fl 8.10 to Fl 178.20.

ZURICH extended early losses to end almost 2.5 per cent down with the SMI index losing 178.8 to 7,053.5.

Financials were among the biggest losers. CS Group, higher in early trade after a newspaper report said ING had approached the Swiss group with merger proposals, could not maintain the advance. It closed SFr14.50 or 4.4 per cent lower at SFr313 as both groups refused to comment and analysts expressed scepticism about a tie-up.

The heavily traded Novartis held up fairly well, with the registered shares easing SFr5 to SFr2,369, while the bearers picked up SFr4 to SFr2,375.

Clariant, which reported that it had tripled 1997 group net profit after minorities, finished off SFr13 to SFr1,514, off a high of SFr1,543.

MADRID lost more than 3 per cent on profit-taking, with the general index falling 27.64 tp 834.21.

Traders said the decline was exaggerated by arbitrage-related basket trading amid thin volumes. Tabacalera closed down Pta160 or 4.8 per cent at Pta3,205, while Telefónica, which was traded actively, lost Pta300 to Pta6,010.

Banks, which had gained ground on hopes of mergers, were also sold heavily. Santander was traded actively ahead of today's first-quarter earnings announcement, losing Pta120 to Pta7,840, while Popular fell Pta560 to Pta12,260.

COPENHAGEN dropped 3.2 per cent as the country's biggest strike since 1985 got underway.

The KFX index lost 7.5 to close at a six-week low of 226.82 in moderate turnover of DKr1.1bn.

Oil and shipping group A.P. Moeller was sharply lower as downgrades by five brokers, weaker oil prices and a falling dollar fuelled the fall.

Moeller's D/S 1912 stock plunged DKr22,000 to DKr293,000 while its D/S Svendborg stock was DKr14,436 lower to DKr435,564.

ATHENS lost ground for the sixth day running, sliding 173.27 or 7 per cent to 2,300.71. The index, one of the fastest rising European benchmarks this year, is now more than 12 per cent under its peaks of April 21.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono, Paul Gregan and Nicholas Miller.

FTSE Actuaries Share Indices — European series

April 27

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total rets (Ecu)
FTSE Eurotop 300	1165.22	−2.93	−35.15	2.02	7.32	1181.64
FTSE Eurotop 100	2669.81	−2.81	−71.51	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1127.36	−2.37	−27.39	2.88	13.48	1159.95
300 Ex-UK	1187.39	−3.23	−39.59	1.58	3.83	1194.20
300 Eurobloc	1182.94	−3.13	−38.26	1.71	2.57	1190.09
300 Ex-Eurobloc	1155.38	−2.78	−33.01	2.25	10.75	1178.21
FTSE Eurotop 300 Economic Groups						
Resources	985.00	−2.76	−28.00	2.78	7.15	1008.09
General Industries	1120.15	−2.49	−28.60	1.91	6.94	1129.93
Consumer Goods	1091.89	−2.06	−23.02	1.09	7.58	1111.10
Services	1111.63	−2.46	−28.00	1.97	6.36	1126.69
Utilities	1276.90	−1.92	−24.98	3.43	1.84	1294.30
Financials	1309.74	−4.14	−56.58	1.90	9.22	1328.65

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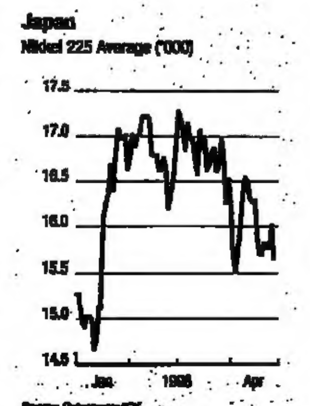
Package fails to lift Tokyo

ASIA PACIFIC

Disappointment with the latest economic package plus a weak session for the yen pushed TOKYO steeply lower and left the Nikkei 225 Average off 361.29 or 2.3 per cent at 15,649.95.

The Topix index of all first-section shares fell 25.13 or 2 per cent to 1,213.82. Turnover was dull with 328m shares traded, against 383m on Friday when the benchmark index rose 1.6 per cent ahead of the official release of the Y1,600bn stimulus package.



Yesterday the Nikkei 225 traded within a range of 15,645.30 to 15,968.73. Declining shares outpaced gainers by nearly five to one.

Banks were the day's heaviest casualties after Friday's comments by vice-finance minister Eisuke Sakakibara suggesting that bank closures were "probably unavoidable". Sakura Bank lost Y19 to Y450 and Sumitomo Bank came off Y50 to Y1,231.

Kirin Brewery, which paid $1.4bn for 45 per cent of New Zealand brewer Lion Nathan, dipped Y1 to Y1,165.

HONG KONG dropped 2.6 per cent as weakness elsewhere in the region eroded what was left of investor confidence. The Hang Seng index fell 286.22 at 10,593.71 up from a low of 10,555.57. Volume, however, picked up to HK$6.2bn compared with Friday's quiet HK$4.3bn.

HSBC Holdings led the market lower with a fall of HK$5 to HK$222. Hang Seng Bank lost HK$2.50 to HK$65.75.

Property issues were the biggest losers and the sub-index dropped 3 per cent. Sun Hung Kai Properties fell HK$1.80 to HK$47.40.

KUALA LUMPUR tumbled on weakness in blue chips with the composite index down 14.32 or 2.25 per cent to 620.79. Trading remained thin ahead of today's Islamic holiday.

Finance stocks lost ground as banks requoted following a merger deal were hit by selling. RHB Capital fell 35 cents to M$2.85 and Rashid Hussain declined M$1.1 to M$4.1.

TAIWAN lost 1.9 per cent as electronics shares were hit by Friday's Nasdaq slide. The weighted index closed down 164.49 to 8,471.62 also hurt by concerns over high levels of margin loans and a bearish economic outlook for the second quarter.

The electronics sector fell 3 per cent. Acer lost T$3 to T$62.5 while Taiwan Semiconductor declined T$4.5 to T$142.5. Outstanding margin loans totalling T$502bn at the end of last week also weighed on share prices.

SYDNEY ran into profit-taking, notably among gold shares, where the sector index fell 3.4 per cent. The All Ordinaries index ended 36.9 or 1.3 per cent lower at 2,818.0. Normandy Gold fell 10 cents to A$1.70. Among diversified mining groups, Rio Tinto lost 54 cents to A$21.76. Hit by the weakness of its ADRs in New York on Friday, News Corp gave up 32 cents to A$10.42.

WELLINGTON moved lower after Lion Nathan fell almost 6 per cent. The 40 capital index lost 35.21 or 1.5 per cent at 2,2987.61.

Lion Nathan, a strong market lately on takeover hopes, came off 30 cents to NZ$5 after Kirin Brewery of Japan acquired 45 per cent of the company. DB Group, the other big local brewer, shed 25 cents to NZ$2.70.

SEOUL erased early gains to close lower in spite of unexpected demand for the banking sector and the composite index ended 5.38 lower at 406.25. Bargain hunters bought banks following their sharp falls last week and as investors responded positively to government restructuring in the sector.

SINGAPORE eased in thin trade with the mood dampened by the region's economic problems and a lack of buying interest. The Straits Times Industrials index ended 19.81 lower at 1,471.47. Cycle & Carriage fell 30 cents to S$6.15 on reports of a fall in luxury car sales.